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ROYAL COMMISSION

ON

PRICE SPREADS OF FOOD PRODUCTS

HEARINGS

HELD AT

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ROYAL COMMISSION ON PRICE SPREADS OF FOOD PRODUCTS

Proceedings before the Royal Commission on Price Spreads of Food Products resumed at 2.00 p.m. on Wednesday, November 12th, 1958, at Ottawa, Ontario

CHAIRMAN:

Dr. Andrew Stewart

COMMISSIONERS:

Mrs. Dorothy Walton
Mr. J. Howard MacKichan
Mr. Romeo Martin
Mr. W. Malcolm Drummond
Mr. Cleve Kidd
Mr. Bernard Couvrette

Secretary

John Dawson

Assistant Secretary

A. A. Caron



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TORONTO, ONTARIO

3918

Saturday,

November 15, 1958.

Submission of
INTERPROVINCIAL FARM UNION COUNCIL

Appearances:

Mr. J. Patterson

Chairman

Mr. A.W. Platt

President, Farmers'
Union of Alberta

THE CHAIRMAN: We will open the hearings this morning with the brief of the Interprovincial Farm union Council which will be presented by Mr. Patterson.

MR. PATTERSON: Thank you, Mr. Chairman.

We would like at this time, Mr. Chairman, to express our appreciation for the opportunity of appearing before you for the second time.

Our executive felt it was desirable that we should make this presentation on the national level.

You have, during the past months, received representation from each of the provinces that comprise the membership of the Interprovincial Farm Union Council, and we wish at this time to re-emphasize some of the main points that have been raised and to submit further information on various aspects of



our case.

We appreciate that you have accumulated a vast amount of material. If we have reproduced some of the factual information and tables you have already seen in previous submissions, we do so merely for the purpose of rounding out our case at this time.

The work of this Commission has attracted very widespread attention, and the significance and relationship of this study to the establishment of a national farm program is becoming increasingly evident.

On August 30th, Prime Minister Diefenbaker outlined a seven-point agricultural program for Canada. We think it would be fair to suggest that the appointment of this Commission is of such importance that it should be considered the eighth point in the government program, in view of the importance of the study in producing evidence we believe will have tremendous economic significance to the farmer. Also, it should provide data of vital importance to the government in dealing with farm policy.

Because of the frequency with which Royal Commissions have been appointed in the course of recent years, there has developed an area of scepticism as to the benefits to be derived from Royal Commissions as such, and the objective of governments in establishing such commissions. We assume that the Government has perfectly honest intentions with



respect to the appointment of this Commission. We note that ample provision is provided in the Commission's terms of reference for recommendations to the government with respect to this whole matter of price spreads, and have every reason to believe that your recommendations are being eagerly anticipated. We sincerely hope, therefore, that these will be definite recommendations, of such a nature that the government will have the type of information and guidance to enable them to apply these recommendations in the interests of all groups concerned.

In emphasizing our case today, we would point to the deterioration in net returns to the farmer for his products over a period of years.

Table 1 will indicate the fluctuations in agricultural prices of farm products, and also of commodities and services used by farmers. In other words, this chart indicates very objectively the nature of the cost-price pressure on Canadian agriculture. It also gives an indication of the extent to which farm people have absorbed rising merchandising costs in maintaining relatively stable prices on the retail market.

It will be noted that the margin between cash and net income per average farm, increased from \$690 in 1951 to \$1,933 in 1956. This condition vividly illustrates the combined effect of falling farm prices and rising farm costs that have plagued farmers in recent years.



Table I illustrates the widening disparity that has developed between farm costs and farm prices, contributing to what is commonly referred to as the "cost-price squeeze".

Table II which follows, indicates the extent of the deterioration particularly in grain prices on the prairies. We would point here to the gradual deterioration in income from small grains, which is considered the main source of income for the prairie region, and which products have had no benefit from price supports.

On the other hand, you will note that milk producers have suffered a much lesser decline in price in terms of constant dollars. This has been made possible by the fact that through milk control policies, the price of milk has, since 1947, moved slightly upward.

We appreciate that only by the most economic use of land, labour and capital, can farmers reduce the unit cost. In recognition of this principle, producers have stepped up their farm output to the maximum, by adopting all techniques available to increase productivity.

Agriculture in the post-war period has become entirely mechanized. Tremendous technological advances have been made which farmers have been able to apply in their farm management program, and notable advances have been made in the fields of plant science in producing varieties of grains that are not only more resistant to many hazards, but which



have increased the output per unit very substantially.

This action, of course has put the producer in a surplus position which has reduced his bargaining power, with the result that higher output has meant lower net returns. It has been said that 1 per cent surplus production lowers price by 8 per cent.

As we indicate in Table III, increases in handling costs have more than offset benefits accruing from reduced costs at the farm.

(Source: The Economic
Annalist)

TABLE III

Indexes of Retail Food Prices, Marketing
Margins and Farm Shares -- 14 Selected
Commodities (1949=100)
Canada 1950 - 1956

<u>Year</u>	<u>Retail Food Prices</u>	<u>Farm Prices</u>	<u>Marketing Margins</u>	<u>Farm Share of Retail Cost</u>
1950	101.5	101.0	103.2	98.9
1951	115.6	115.4	113.2	100.4
1952	118.2	118.6	127.1	94.6
1953	113.1	102.3	126.1	92.6
1954	110.3	97.2	126.2	90.9
1955	110.8	97.2	124.5	91.4
1956	112.1	96.8	129.7	88.0

Table II

Prices of Saskatchewan Farm Products
at Producer Level in Current and 1949 Dollars

(Index 1949 = 100)

	<u>1948</u>	<u>1949</u>	<u>1951</u>	<u>1953</u>	<u>1955</u>	<u>1957</u>	<u>% Decline in 1949 Dollars</u>
Wheat-Av.Price per bush.All	1.63	1.61	1.52	1.33	1.37	1.09*	
Grades 1949 value							
per bushel	1.71	1.61	1.29	1.12	1.16	.87	-46.0
Oats-Av.Price per bus. All	.63	.74	.68	.56	.61	.45*	
Grades 1949 Value							
per bushel	.66	.74	.58	.47	.52	.36	-39.2
Barley-Av.Price per bus. All	.95	1.28	1.08	.83	.86	.71*	
Grades 1949 Value							
per bushel	.99	1.28	.92	.70	.73	.57	-55.5
Rye-Av.Price per Bus. All	1.30	1.20	1.56	.80	.92	.84	
Grades 1949 Value							
per bushel	1.36	1.20	1.23	.67	.78	.67	-44.2
Flax-Av.Price per Bus. All	3.80	3.31	3.94	2.44	2.77	2.52	
Grades 1949 Value							
per bushel	3.98	3.31	3.35	2.05	2.35	2.02	-39.0
Steers-Saskatoon- Good per	17.40	19.18	31.05	18.22	17.75	17.05	
cwt. 1949 Value							
per cwt.	18.22	19.18	26.39	15.30	15.09	13.64	-28.9
Hogs-B1-Saskatoon per cwt.	27.77	27.99	30.40	26.40	20.80	26.55	
1949 Value							
per cwt.	29.07	27.99	25.84	22.18	17.68	21.24	-21.74
Milk-Producer Price- Regina	3.89	3.91	4.30	4.50	4.50	4.50	
1949 Value							
per cwt.	4.07	3.91	3.80	3.76	3.82	3.57	-8.7
Western Canada Index of Commodities and Services (1949 = 100)	95.5	100	117.4	119.1	117.8	125.2	

* Initial prices.

Source: Livestock Market Review-Saskatchewan Department of Agriculture Report -- 1957.



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Retail: The farmer's share of the food dollar has been reduced year by year as more and more is being required by processors, distributors and retailers, in processing packaging and merchandising of food products. The question arises as to the extent to which these additional costs are justified, whether or not these charges are being based on consumer demand, and who should pay the increased costs.

Table IV indicates the extent to which this reduction in farm share of the consumer dollar has taken place. There are reasons to believe, however, that this figure has been further reduced very substantially during the past three years.

TABLE IV

		<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>
Retail Cost	\$million	2,190	2,310	2,651	2,788	2,842	2,945	3,070
Farm Value	\$million	1,106	1,153	1,344	1,330	1,333	1,358	1,415
Marketing Margin	\$million	<u>1,084</u>	<u>1,157</u>	<u>1,307</u>	<u>1,458</u>	<u>1,509</u>	<u>1,587</u>	<u>1,655</u>
Farmer's S Share	per cent	50.5	49.9	50.7	47.7	46.9	46.1	46.1

(Source: **Economic Annalist**, June 1956)



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In Table V we have a breakdown of the farm share of the retail cost as a detailed percentage of a retail price on fourteen selected commodities in Canada from 1949 to 1956. This indicates the farm share of the retail cost dropped by almost 10 per cent, while in the same seven-year period the cost of production to the farmer increased by 21.3 per cent.

I think perhaps it is rather significant in Table V that we find that in the matter of various types of farm commodities and for the various degree of processing necessary that you will find it seems that it does not always hold true, and you notice in eggs, according to this table, they stand at 74 while creamery butter stands at 77. Potatoes with perhaps little or no processing at all necessary stand at 41.

TABLE V

Farm Share of the Retail Cost as a Percentage
of the Retail Price, 14 selected Com-
modities, Canada, 1949 - 56

<u>Commodity</u>	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
	<u>Percent</u>							
Wheat flour	49	46	42	39	41	35	38	37
White Bread	23	21	18	16	17	14	15	14
Beef(blue brand)	64	67	71	62	57	58	59	57
Pork	62	61	61	55	56	53	50	51
Chicken	56	58	58	56	54	55	58	51
Eggs A-Large	82	78	80	74	77	73	76	74
Fluid Milk	56	55	54	54	54	53	53	52
Creamery Butter	76	75	79	77	77	78	77	77
Cheese, plain process	35	32	35	27	27	28	27	37
Potatoes	48	45	49	61	43	45	41	41
Canned Peaches	26	23	21	22	21	22	21	24
Canned Tomatoes	20	21	18	17	21	22	21	18
Canned Corn	15	15	14	15	18	17	17	17
Canned Peas	17	18	19	19	20	20	21	20

(Source) Economic Annalist, June 1957)



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A study of the upheaval of some various elements within the processing and marketing field is most interesting. The position of the retail food price index can perhaps be explained to some extent by a study of Table VI. There we note that the operating expenses per store as to total sales increased from 12.94 per cent in 1949 to 15.32 per cent in 1955, and operating expenses per average store increased from \$14,472 in 1949 to \$38,443 in 1955.

We must conclude that while consumer prices have been maintained on a somewhat even keel in recent years, this has only been possible because of falling farm prices, with the benefit accruing to the ultimate consumer.

TABLE VI

Operating Results of Chain Grocery Stores

<u>Item</u>	<u>1949</u>	<u>1951</u>	<u>1953</u>	<u>1955</u>
No. of Firms	8	8	6	6
No. Stores Operated	<u>68</u>	<u>129</u>	<u>151</u>	<u>152</u>
Average Sales per Firm	\$950,654.00	\$2,136,087.00	\$4,047,995.00	\$6,074,644.00
Average Gross Profit per Firm	151,724.00	331,734.00	605,580.00	973,765.00
Gross Profit as %age of Sales	15.96	15.53	14.96	16.03
Operating Expenses per Firm	123,014.00	301,615.00	558,623.00	930,635.00
Operating Expenses as %age of Sales	12.94	14.12	13.80	15.32
Operating Profit Net	28,709.00	30,118.00	38,455.00	43,130.00
Net Operating Profit as %age of Sales	3.02	1.41	.95	.71
Average Sales per Store	111,841.00	132,479.00	160,851.00	230,711.00
Average Expense per Store	14,472.00	18,704.00	22,202.00	38,443.00

Source: D.B.S. Operating Results of Chain Food Stores

It is interesting also to note that during the period of recession on the farm front, there has been atremendous expansion of supermarkets throughout the country. It must also be noted that stock values in these organizations are on the increase.

I would add here that I would expect that



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this area of expansion has already passed the saturation point in some areas, which is to be expected, and operating expenses as to percentage of sales from here on is quite likely to increase.

Table VII indicates the percentage of change in marketing margins of eight selected commodities, Canada 1949-1956. Therein it will be noted that only in the case of creamery butter (the price for which has been maintained by the action of the Federal government and where the ceiling is dictated, to a large extent, by competitive products) speculation has been reduced, and price levels maintained. In all other products that fall into the general category of unprotected and speculative commodities, the percentages change, ranging all the way from 1.9 per cent on chickens, to 49.3 per cent in the case of white bread.

TABLE VII

Average Annual Marketing Margins,
8 Selected Commodities, Canada, 1949-1956

Commodity	Unit	1949	1950	1951	1952	1953	1954	1955	1956	%age 1 Change 1949-56
										(Cents per Unit)
Wheat Flour ²	lb.	3.7	4.0	4.3	4.5	4.5	5.0	4.6	4.9	+32.4
White Bread ²	lb.	7.7	8.1	9.4	9.9	10.0	10.7	10.7	11.5	+49.3
Beef - Blue Brand	lb.	18.4	20.1	21.6	29.0	26.7	24.1	24.4	25.3	+37.5
Pork ³	lb.	21.2	21.5	24.1	24.1	26.9	30.2	27.4	27.5	+29.7
Chicken ³	lb.	25.7	23.5	27.8	26.2	29.5	30.0	23.1	26.2	+ 1.9
Eggs - A Large	dz.	11.2	12.4	14.1	15.2	15.8	15.1	15.1	16.2	+44.6
Fluid Milk	qt.	7.9	8.2	9.1	9.8	9.5	9.9	9.9	10.1	+26.6
Creamery Butter	lb.	15.3	15.1	14.2	15.5	14.8	14.4	14.6	14.5	- 5.5

1 Preliminary; 2 Based on Domestic Price of Wheat in Store Ft. Wm. - Pt. Arthur, less marketing charges from farm to Ft. Wm. - Pt. Arthur; 3 Method used subject to revision.

Source: Economic Annalist - June 1957.

Much emphasis has been placed on the necessity for efficiency in the field of production. We readily agree that in an industry dependent very largely on the world market as a yardstick for prices, every effort must be made to remain competitive. At the same time, there is little to suggest that prices on the world market should dictate



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domestic food prices.

As statistics will indicate, the agricultural industry has been making use of all devices available for the more efficient production of farm commodities. This efficiency has not been matched in the area between the farmer and the consumer. Consequently, the consumer is the recipient of these benefits at the expense of the producer.

Owing to the trend in agriculture created by the economic squeeze, it has become increasingly difficult for the industry to obtain the necessary capital to match the type of competition that is emerging. As farm organizations endeavour to move in the direction of stabilizing farm income at an adequate level, industry is quick to take advantage of this situation and, with unlimited available capital, is rapidly invading the production field at the expense of the agricultural industry.

Farm people, because of their industry's unhealthy economic position, are being victimized to the extent that their independence of production and management is being taken over by industry.

We refer to this situation particularly, in view of the long-term impact such a trend will have on our entire economy, and the price we are having to pay for advantages which are merely a passing phase and will entirely disappear in the course of the next few years. This trend is commonly referred to as "vertical integration" and there are various stages at which the producer can be integrated.



A matter of real concern to rural areas is the future of towns and small cities dependent on the farm community, and we feel very strongly that society as a whole should be alerted to the dislocation that may well result if the current trend carries through to its possible conclusion.

No one will argue that many of our commodities cannot be produced for less in certain large-scale operations, but we point out that the so-called benefits of lower production costs cannot be measured simply in terms of cents per unit. Consideration should be given to the cost of maintaining agriculture as we know it today. In the case of livestock, the cost would lie within the peak of beef and pork prices during the course of the past 12-month period. The wheat farmer could be paid a fair price with no increase in bread prices. The increase necessary to render stable the dairy industry -- the fruit grower -- the producer of cannery products -- would be so small that it would be difficult to estimate in relation to the consumer price.

On the other hand, we find that not only the producers, but also many of the secondary industries, are coming under the pressure of monopolistic operations with the result that, in order to stay in business, contracts by large corporations are being obtained at levels at which many of these industries cannot survive.

In defence of current levels of prices



for manufactured commodities that the farmer buys, and also in an effort to justify the price spread between farmer and consumer, many organizations today attempt to lay the blame on the doorstep of labour. It is not our intention, Mr. Chairman, to present a case either in defence of or in criticism of labour, but we would submit for the record what meagre information we have with respect to some of the things which are happening in the processing and retailing trade today.

In the case of the bread industry, labour has made substantial gains in rates of pay in fringe benefits and hours of work in the course of the past number of years. But they are, as is the case also with the farmer, working under entirely different conditions today, have the advantages of modern methods and modern machinery, with the result that output per man-hour has been increased very noticeably. In 1953, the weekly wage bill in a specific area amounted to \$5,431.50. In 1956, this was reduced to \$4,034.85, while in 1958, the figure was \$5,408.20. During that period, the output in these organizations has increased very considerably in bread as well as in pastry products, while at the same time, the labour force has been reduced by 7.7 per cent. This would indicate, then, that on the basis of output per man-hour, the labour element in a loaf of bread is a lesser factor today than it was, say, ten years ago.

It is also recognized that the flour content



of bread is becoming less and less of a factor in the total cost of the product to the consumer. During the past four years the price of bread in Manitoba has increased by three cents per pound; at the same time the price of wheat has diminished consistently. There are indications, however, that the price of bread has been increased in anticipation of pressure from large chain store operations, and is not necessarily justified by any increased costs accruing to the companies at the present time.

According to information made available to us, pressures of competition have put the chain stores in the position where they are securing their supplies of bread from local bakeries, referring to the city of Winnipeg, for as low as 8-1/2 cents per pound. It is also reported that rye bread is being supplied by bakeries to chain stores at as low as 9-1/4 cents per pound, and is being retailed at 17 cents to the consumer.

It is a matter of grave concern to us, Mr. Chairman, to find that the food industry today is being concentrated in the hands of a very few individuals. This can only result in the government having to take an active interest in analyzing the factors contributing to this situation, if any semblance of order and propriety is to be maintained in the production and merchandising fields.

According to a study made by Professor A.W. Wood, Department of Agricultural Economics, University of Manitoba, in 1951 the Winnipeg housewife



paid an average of 70 cents for a pound of beef (carcass basis) and the producer received 47 cents, or two-thirds of the retail price. In 1957, the housewife paid an average of 48 cents per pound and the farmer received less than 25 cents, or about one-half of the retail price. During the past year the Manitoba farmer has received 51.7 cents of each dollar spent on beef by the Winnipeg householder -- the remainder went to the marketing agencies as follows:

Transportation and selling	3.3 cents
Packers	7.3 cents
Retailer	37.7 cents

For the last two years the share going to the packer has been lower, while the retail share has been higher than at any time in the past 23 years.

Farm share of the consumer's beef dollar has been below normal, because total marketing charges have been above the long-run average. Despite improvements in technology of meat handling, the real cost of marketing beef has risen above the pre-war level.

If these costs had remained constant in real terms at the 1935-41 level, the farm share in 1957 would have been 54.4 per cent of the consumer's dollar instead of 51.7 per cent. In terms of constant dollars, the marketing agencies charged about 11 per cent more for their services in 1957 than they did on the average during 1935-41. During this



period, transportation and selling costs and packer margins were considerably lower, but retail margins were up by over 50 per cent.

"Unless retailing costs decline", states Professor Wood, "it is unlikely that the farmer will get much over 50 cents of the consumer's meat dollar, if prices remain at current levels in the future."

In the processing and distribution of whole milk, we have a very similar situation. Food regulations are such, in the majority of our larger centres, that today there is very considerable cost involved in processing milk before it is available for distribution. Here again, we find that in the distribution, there are tremendous costs involved which we believe are to a large extent unnecessary: Where there are several delivery trucks delivering milk on the same street, and a rural delivery service where trucks are driving many hundreds of miles a day in delivering milk to all the small country points throughout the rural areas of the provinces. This is extremely wasteful and must be paid for by someone.

Moreover, this service was not demanded by the public, and was totally uncalled for, because the rural areas have been well serviced by many small processing units which were doing an outstanding job in processing the milk from the local area for consumption in the smaller towns and villages throughout the provinces. But the larger companies, overly



ambitious, have moved into these areas and subsidized their operations to the extent that the small processor has been forced out of business and the trade taken over by the larger organizations.

I would add here just as an observation that in some of these rural areas where these processing points have been operating at the standard of milk the quality of milk has been notably higher than in some of the larger concentrated areas. A Milk Board member spoke to me just the other day, and told me that in my own home area, that the milk that is being shipped to the city of Brandon today is of a better quality on the average than what is being received from the Brandon area itself.

We would repeat, sir, that there is no justification for some of these practices in the retail trade. Small enterprising businessmen had set out to perform a service which was acceptable to the local people and, only because of the greed of the larger organizations and their determination to capture a larger field of operation, has this type of competition been introduced.

Nor are these products being supplied for any less cost. This is impossible, when you consider that these products to which we have referred, are being delivered hundreds of miles from the source of supply and processing. And as competition is eliminated, the demand for increases in price continues. We would suggest again that this type of operation is only made possibly by the fact that a



large volume of the product is being sold at unnecessarily high prices in the concentrated areas, in order that this type of merchandising can be carried on in the rural areas.

I might add here that in Manitoba and I speak particularly of Manitoba because that is the area I am familiar with, you will find areas adjacent to those points that have been under the control of the Milk Control Board, and supplied the service by the same organizations, they are charging two or three cents a quart more for the milk outside the boundaries of the area than they are within the area itself which as I mentioned a moment ago indicate the only thing that is protecting the consumer is the Milk Control Board.

In different industries, different methods have been used for the purpose of eliminating competition, and it is not an uncommon practice for large companies to purchase smaller units and take them out of operation entirely. This has been very noticeable in Ontario, and possibly to some extent in other parts of the country where American-owned companies have purchased canning factories, etcetera, and have immediately taken them out of production -- and supply the trade from other plants. This has also happened in the case of creameries and cheese-making establishments.

Much has been said of the inefficiency of the farmer. Inefficiency has been set forth as the main reason for all the farm problems and as



justification for industry moving into the production field and eliminating agriculture as we know it today. We find, however, that farmers as a group have increased the efficiency of their production. Their productive capacity has increased by two-and-a-half times in the post-war period. This is a record that possibly would be very difficult to match by any other industry.

We recognize that a unit of production can only operate with the maximum of efficiency when farm capital and labour are being used to the fullest extent and to the best advantage. The economic squeeze has been exerted on the farm community. The old argument that the farmer must compete or be subservient to the law of supply and demand no longer holds true. This argument, even by those who promote it, would not be applied in their particular field of operation.

Canada enjoys a very high standard of **living**. This is made possible because of the protection which is accorded to other industries who must, in turn, gain their income from the farmer, from the labourer, from the consumer -- as a group. In turn, the farmer must rely on the markets available to him to earn sufficient income to purchase the necessities of life and the tools and machinery necessary to carry on his productive enterprise.

As the inflationary process has taken its toll in Canada, and the dollar level has lost all relationship to world values, it has become increasingly



difficult for agriculture to maintain its position. According to the Gordon Commission, it is costing Canadian consumers approximately one billion dollars a year to protect Canadian industry. The loss to Canada in sales and in business because of our high production costs, would perhaps amount to many times more than the \$1 billion that is quoted in the Gordon Commission report.

A further statement by that Commission, that Canadian industry pays wages from 25 to 30 per cent below current wage levels in the United States, raises some serious questions with respect to the operations of industry in Canada.

We think it can be said that the agricultural industry in Canada has done a remarkable job in maintaining its position in spite of the economic pressures exerted upon it, and we can see little justification for the low level of prices continuing to the producer if the benefits of these economies in production and low returns are not passed on to the ultimate consumer.

It would seem to us that it is extremely unfair that many millions of Canadian producers and consumers should become the victims of a few corporate enterprises who, in their utter ruthlessness, are quite prepared to destroy even the Canadian way of life in order to gain their objective of absolute control of the gigantic food industry of Canada.

It would not be too difficult for many merchandising and processing institutions in operation



today to justify, on the basis of their operation, the cost involved in processing and distributing the food products of Canada. We would suggest, however, that this Commission look very carefully at the reason for the necessity for some of the practices presently in vogue. We would also suggest that what is so often termed "consumer preference" and the "demand of the public" is nothing more or less than the invention of advertising and promotional organizations, in conjunction with the food industry, in their efforts to gain temporary advantage over their competitors -- to bring in all the gimmicks and gadgets at their command to promote the sale of their particular brand of product.

In summarizing our case, Mr. Chairman, we would draw attention to the fact previously indicated, that the control of the food industry of Canada today is held in the hands of a very small group of individuals. We would suggest that the nature of competition at this level is such, that secondary industries, in order to maintain their position in this restricted market, are in turn compelled to use every means at their disposal for obtaining the primary product from the producer at the lowest possible price. And owing to the fact that the only other outlet for the primary product is the world market, the price received becomes, in terms of Canadian standards, an extremely unrealistic price indeed.

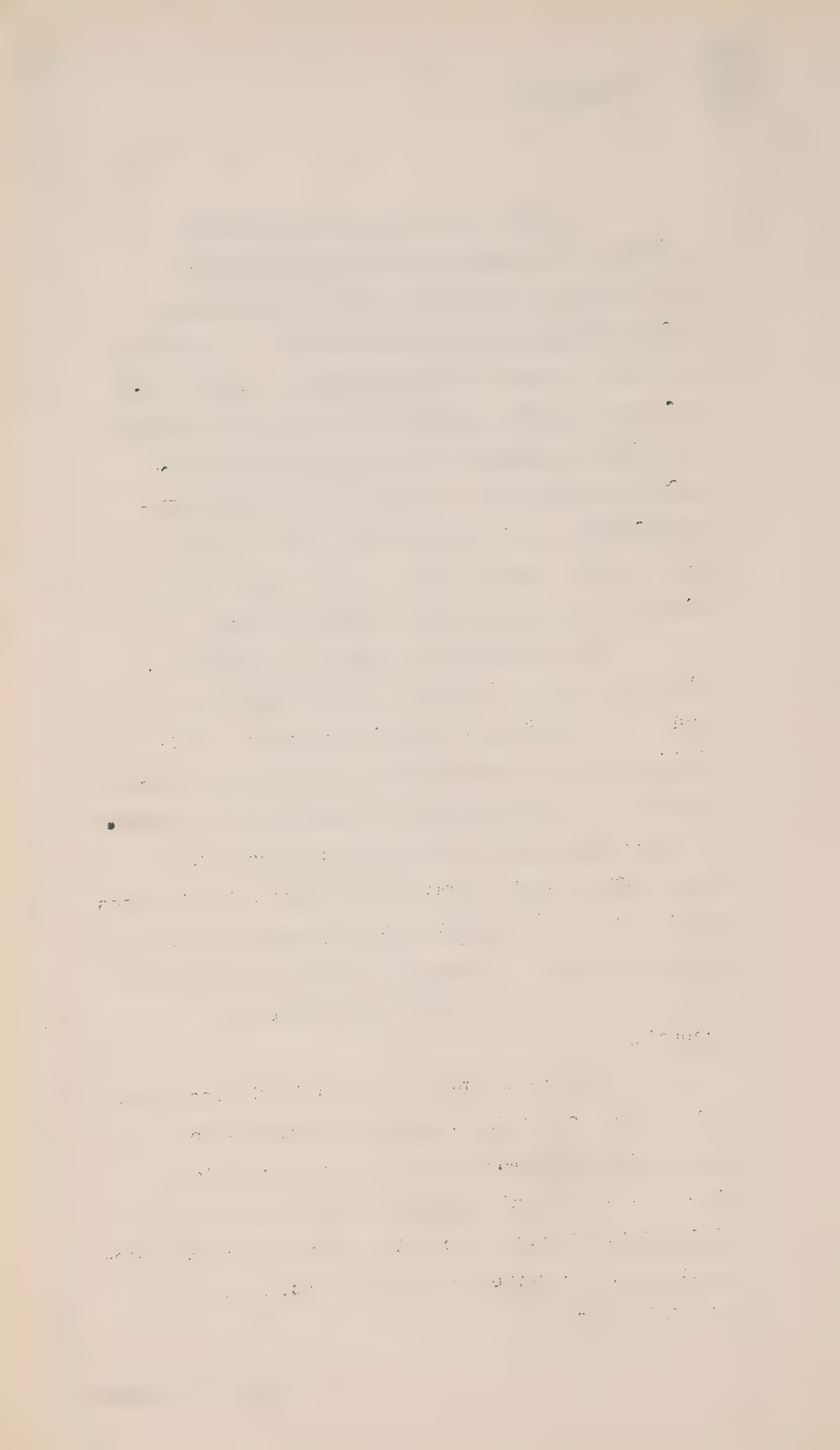


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Farmers have a very definite responsibility to the nation to provide good food in ample supply to take care of every requirement, not only domestic but export as well. Quantities required, of course, vary drastically, and in order to be sure that the market will be supplied, farmers are obliged to maintain a surplus of these commodities continually. Because of this situation exploitation is the order of the day. If this trend should continue, the obvious result can be extremely disastrous to the Canadian people.

When speaking in support of industry, all authorities will argue that industry must be kept in a healthy and thriving condition. We believe that the demands made on agriculture should also be the yardstick used in assessing the position of other industries in the Canadian economy. We find, however, that some of our largest institutions today are so set up that they will maintain their position and pay a reasonable return on investment, on as low as 50 per cent of their productive capacity.

Should the present trend in the food trade be allowed to continue, should all competition be eliminated by the few large chain operations, and should vertical integration take over the production of farm commodities, there is no guarantee that we will continue to feed the nation with low-price food





commodities. This has not proved so in other fields of manufacturing and there is little to suggest that it will be any different in the case of our food industry.

When food is scarce, there is little complaint against higher prices in the market place, but should the production of food be controlled at the corporation level, this technique would undoubtedly be employed. Food supplies could easily be maintained at the scarcity level and the consumers would be exploited in turn. Even at the present time, if the glaring inefficiencies prevalent in industry, merchandising and distribution were allowed to the same degree in the production field, production costs would be increased by at least 25 per cent.

May we say, Mr. Chairman, that the farmers of Canada are quite prepared to accept every responsibility which is rightfully theirs. They have, over the years, fought consistently for free trade. This has proven a losing battle up to the present time, but farmers have not entirely lost hope. It would seem that, because of our protective policies, Canada has all but priced herself out of the world market. As we have previously quoted from the Gordon Commission report, the cost of this protection is almost \$1 billion per year, and possibly many times more in terms of lost sales for Canadian products. Under these conditions it appears quite impossible for us, as a young nation, to enjoy



the expansion and development which we have every right to expect of our country, and of which Canada is capable.

We would like to refer briefly to the problems of the fishing industry in Manitoba, and other areas, particularly where farming and fishing are carried on as a combined operation.

Obviously the difficulties encountered by the fishermen stem largely from the self-same sources as the problems of the farmer -- namely: Hazards of harvest - seasonal operations - unpredictable yields - and wide price fluctuations.

In reviewing the submission made last April on behalf of Manitoba fishermen, the figures submitted are possibly even worse than those on the average foods from the farm.

It appears that the producer or fishermen receives less than 50 per cent of the price received by the fish companies; jobber and retail costs would still have to be added. Other information would indicate that the fisherman receives less than 20 per cent of the retail price.

Price fluctuations are also extremely violent when prices to fishermen vary up to 75 per cent in one month.

Fishermen are somewhat concerned that this Commission may give prior consideration to Whitefish alone. While Whitefish did at one time make up a higher percentage of total catch, we find that in terms of volume in the 1955-56 season,



Whitefish were less than one-half that of Pickerel, and about 30 per cent on the average. Fishermen would like to see other fish given equal consideration in your studies.

It seems a tragedy that we of North America should appear to be completely bogged down in our own domestic problems, while we are attempting to maintain a position of respect and leadership in world affairs. We maintain that it is quite impossible for Canadian agriculture to remain in a healthy position in our high-cost economy while depending on world markets to establish prices for our commodities, not only for exportable surplus but also for domestic consumption as well.

We are concerned that more consideration has not been given by our governments in the past to the report of the Royal Commission which studied price spreads back in 1937. It would appear that these recommendations have been almost entirely ignored, and today in 1958, we are studying a comparable situation, 21 years later. In the meantime, we have had to depend on wars and the fear of wars to keep agriculture in business. We would refer you to a quotation taken from the report of the Royal Commission of 1937, and contained in a submission made to you by the Farmers' Union of Ontario in September of this year:

P. 146. "The price received for this exportable surplus, however, under present conditions becomes the basis of the domestic



"price; one result of which, during the last few years, has been extremely low prices for agricultural products in Canada. These prices, indeed, have often reached a level far below the cost of production.

This means that the agricultural population, which constitutes a large proportion of the total population of the country and consumes large quantities of manufactured goods, has had little or no buying power. This, in turn, has restricted the consumption and hence the manufacture of manufactured goods.

If the necessity for increasing the farmer's buying power is admitted and if world conditions prevent this being accomplished by international action, the question arises whether domestic prices are to continue to be controlled by the price of the small exportable surplus. The alternative is to maintain a domestic price, if necessary by governmental action, in keeping with the domestic cost of production and allowing the exportable surplus to get what it can."

In conclusion, Mr. Chairman and members of this Commission, we wish to say that we fully appreciate the difficulties you have encountered in obtaining the data necessary for your study of this extremely complex problem.



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We trust that the recommendations you submit to the government will be of such a nature that there will be no doubt as to the findings of the Commission which will be, we are sure, of inestimable value to all the groups comprising our Canadian economy.



THE CHAIRMAN: Thank you, Mr. Patterson.
I would ask Dr. Drummond if he would ask you some questions.

COMMISSIONER DRUMMOND: First of all, Mr. Patterson, on page 2, the second last paragraph there, I was wondering if there was a word left out: "It will be noted that the margin between cash and net income per average farm...". If there anything left out there -- "That the margin between cash 'income' and net income..."?

MR. PATTERSON: I don't think so.

COMMISSIONER DRUMMOND: I was wondering what the distinction is between cash income and net income.

MR. PATTERSON: This has increased the margin; in other words, there is the difference between \$690 and 1933 -- increase in costs over net income.

COMMISSIONER DRUMMOND: I just wondered if the wor "cash" was the one intended there, or whether it might have been "gross", or something like that?

MR. PATTERSON: Yes, it could be explained that way; that is so.

THE CHAIRMAN: What is the source of these data?

MR. PATTERSON: This particular reference is taken from a study made in Saskatchewan by the Farmers' Union in Saskatchewan.

COMMISSIONER DRUMMOND: On the same page,



just before that, you state "... farm people have absorbed the rising merchandising costs in maintaining relatively stable prices on the retail market.": If farm people have absorbed these rising costs, they have absorbed them, as you indicate in several places, by being compelled to accept a lower price?

MR. PATTERSON: Largely, yes.

COMMISSIONER DRUMMOND: It strikes me from your brief that there are two reasons why they have been compelled to accept a lower price. I wondered whether these two are distinctly different or not. The first one seems to be simply the fact that farmers have produced in what we call surplus quantities; in other words, you have a surplus situation. You state on page 4, for example, that this surplus position has reduced his bargaining power. I presume the reason is that when you have a surplus situation, you really have what we call a buyer's market, rather than seller's market?

MR. PATTERSON: That is so, yes.

COMMISSIONER DRUMMOND: And that is why the bargaining power has dropped, and that is why the price has dropped?

MR. PATTERSON: Right.

COMMISSIONER DRUMMOND: My point is that the producer price would certainly go down for this reason alone, even though nothing else existed, wouldn't it -- due to the fact you have had this over supply?

MR. PATTERSON: On our present system of



marketing, yes.

COMMISSIONER DRUMMOND: Yes. Perhaps we could make these further observations that even if everything were 100 per cent satisfactory in what we call the merchandising sphere, in the middle man area, if everything were satisfactory and completely efficient in every way, if you had over-production, or a surplus of farm production, your farmers would still be forced to accept lower prices?

MR. PATTERSON: That is generally so, sir, yes.

COMMISSIONER DRUMMOND: Now, the other reason, it seems to me, which you emphasize more -- the other reason for this drop in producer prices, is the fact that in your opinion there is a lack of ordinary competition at the retail end; is that correct? Or, shall I say in the distributive area?

MR. PATTERSON: I would say this, sir, that because of the nature of their control at the retail level, that the buying pressure, the downward pressure, has been taken advantage of to a greater extent than heretofore, and because of the nature of this competition and these pressures, pressure is not only coming on the primary producer, but it is also coming on the secondary group in between, which is more or less a double-barrelled attack on the producer in attempting to maintain a price.

COMMISSIONER DRUMMOND: And what you state, of course, is that this secondary person in between,



he in turn, in self defence, tries to get his product from the farmer for less?

MR. PATTERSON: That is so. It would seem to me that in some instances this fight for survival is just as keen in that area as it is, perhaps, with the farmer, although perhaps they are even more vulnerable to that type of thing than the farmer in some respects.

COMMISSIONER DRUMMOND: Would it be fair to conclude that even though we did not have farm production on a surplus basis, if we didn't have over-production, it would seem to follow that their producer price could be lower than it should be just because of this other factor?

MR. PATTERSON: Oh, yes, I would say so very definitely, mainly because the producer lacks any semblance of control or system of putting a price tag on his products, at the production cost level.



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COMMISSIONER DRUMMOND: Yes. I notice that you refer again to this fact, that the milk producers' price decline has been less pronounced than that of other people because of the fact they have had the benefit of production-control policies. Perhaps I should ask how important you really feel these control policies have been in the case of milk.

MR. PATTERSON: To this extent, sir, that I would be inclined to think that had it not been for the function of the Milk Control Board in some of these areas that the decline might have been even more pronounced than it is in some of the other commodities because of the fact that the surplus has not been allowed to influence the market to the same extent as it has been in the other groups that have no protection whatsoever.

COMMISSIONER DRUMMOND: While we are speaking about that, you mentioned the matter -- I have not just got the place at the moment -- where you described the present-day practices of the larger dairies going out to the rural areas and replacing the small dairies which previously had distributed out there.

If the special control policies of the Milk Board agencies were really as effective as some people say they are or can be, would that type of activity be going on? Why can't these boards stop that type of expansion?

MR. PATTERSON: That is what we infer in our analysis of the situation, sir, that we believe that the Milk Boards could do a better job in that



particular field than they are doing at the present time. I would say this, that there is a very real feeling that while we have control at the level of prices, that the surplus of milk is being used in other ways to mitigate against the total benefits that should accrue to the producer; because of the fact that the surplus is, we believe, being used unfairly in the further operations of the milk offices.

THE CHAIRMAN: Are these in areas outside of the control of the Milk Board? Do you have local Milk Boards in Manitoba?

MR. PATTERSON: Yes, we have the Milk Board which covers an area of control, covers the Winnipeg milk shed, Portage la Prairie, Brandon and Neepawa. I am not quite sure -- I just forget whether it covers Dauphin or not.

THE CHAIRMAN: You do not have a provincial milk board?

MR. PATTERSON: No, so you will have operating from Brandon, which is pretty much the centre of the province, and from Winnipeg as well, these areas that are served within the area of control of the Milk Board selling milk at a fixed price; while you will have areas adjacent to but beyond the boundary of the control of the Board where they are paying one to two cents a quart more for their milk.

COMMISSIONER DRUMMOND: You state on page 7 in the second last paragraph: There we note that the operating expenses per store as to total sales increase increased from 12.94 per cent in 1949 to 15.32 per cent



in 1955.

That is indicated in your table on the next page, and then at the bottom of page 8, that paragraph talks about the tremendous expansion of the supermarkets and the fact that the value of their stock has been increasing.

It seems to me in that paragraph there is an implication of your belief that the supermarkets had either not been operating efficiently or at least have been in a position to take an unnecessarily large share for their efforts. Is that a fair conclusion?

MR. PATTERSON: I just did not get that clearly, sir.

COMMISSIONER DRUMMOND: The last little paragraph on page 8 speaks about the tremendous expansion of the supermarkets and then in the last sentence you say that the stock values in these organizations are on the increase. Does that in your opinion indicate that they have been making extraordinarily good profits?

MR. PATTERSON: That is our feeling on the matter. According to the more recent reports on the operation of the supermarkets and their profits, that is the case.

COMMISSIONER DRUMMOND: That would carry the further suggestion, would it not, that these operating expenses appearing in Table 6 there have increased more than there is any really need for?

MR. PATTERSON: Yes, I think there are two reasons for that, sir. One is the fact that in some



areas an institution of any description, in this case a supermarket, when you go into the area where there is little opposition to their type of operation and where they can perform at the maximum of their capacity in store footage; they can operate for such and so. However, immediately their output decreases for any reason at all their costs go up.

In the second place I think that what we are paying for there is the type of performance that these institutions at the present time, which, in our opinion, when you consider what percentage of the farm product is in that organization and being handled by them, it seems utterly ridiculous to us that their profits should be of such a nature that will enable the supermarket to put on gimmicks and to attract trade to the extent that they will give away a series of mink stoles and automobiles and so on from a local organization. It seems to us quite uncalled for.

COMMISSIONER DRUMMOND: In your Table 7, on page 9, it is interesting to note that the high point of the margins was in some cases as far back as 1952 rather than in the most recent years. For example, in the case of beef in 1952 at 29.0; in the case of pork and chicken in 1954 and in the case of premium butter in 1952.

Have you any thought at all as to why the margin might be actually higher in the earlier period rather than the later on?

MR. PATTERSON: Well, I think you will find, sir, that in the case of beef, as an example, in 1952



there was quite a drastic decline in meat prices and we always maintain and always argue that prices do not fall at the counter as fast as they do at the barn.' I think perhaps if it was followed through and analysed closely we might find that was the situation that existed in 1952. As well, it might be that possibly because the disorganization price-wise in the industry that these were holding stocks of meat, which were hesitant to come down as fast because of the possibility that this was only a temporary affair and the prices would bounce off back again and they might be caught in the squeeze.

COMMISSIONER DRUMMOND: I think the one interesting conclusion that one could draw from that table is the fact that in actual practice instead of you having a continuous upward trend in your margins, you could, for special reasons such as the one you mentioned, have a higher margin at any one specific time.

MR. PATTERSON: Yes, that is so, quite so.

COMMISSIONER DRUMMOND: On page 7 at the top you talk about the pronounced efficiency in agriculture which has not been matched by the degree of efficiency in marketing, and then you add that the consumer gets the benefits of the efficiency the farmer is capable of, but you say he gets those at the expense of the producer.

MR. PATTERSON: That is so. I think you can go back to that same table, Mr. Drummond, and I think that bears out that analogy.

The farmer, in order to maintain his income,



his net income, has endeavoured to meet the pressures of inflation and the pressures of buying by producing to the maximum or, in other words, putting his labour, his plant and his capital, pushing it to the utmost in order to produce the most.

That, in turn, has mitigated against him by causing a degree of surplus which, in turn, is used by those that come to buy your product against you in pushing prices downwards. At the same time you will find that is indicated in the chart, as the prices have been forced down to the farmer the consumer has not got the benefit of it and in fact there is an up-turn and that is the reason your producer is in effect subsidizing the entire food industry.



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COMMISSIONER DRUMMOND: Just a word about the vertical integration development, you state here:

"As farm organizations endeavour to move in the direction of stabilizing farm income at an adequate level, industry is quick to take advantage of this situation--"

I presume you mean there whenever they attempt to organize marketing boards or any other such ways to keep their income from dropping, and somebody -- industry you speak of and merchandisers, they immediately move to circumvent this attempt, is that it?

MR. PATTERSON: In that respect, one of the reasons why it has been difficult to get capital into agriculture in the past is simply because of the risks involved. You mentioned marketing boards, that could be a factor, but not at the moment a too significant factor in this thing. I would refer more to the progress in technology and science in eliminating risks inherent in production and so on, digging out some of the factors that have been the ruination of agriculture in the past. That is one side. On the other side, any stability which we have obtained, and I will refer particularly to price stabilization in a guarantee by the government that they will buy them, they will purchase at a given price, any surplus that comes on to the market, then the organization is in the position where their guarantee, even supposing that figure



say in the case of eggs or hogs, or whatever it may be, is figure "X", their cost of production also adds up to figure "X", there is no profit in it at all, they are guaranteed that the price cannot go any lower in the given period. There is an element of gamble in the possibility, in the fact of product cycles. In the past there has been a possibility that it will move off that base, and they will be able to, because of the size of their operation, they will be able to increase their production. At the same time, the people of Canada are guaranteeing to that institution that they cannot lose money which I would add is of much more importance, of much greater value to a large institution than it is to the individual farmer.

COMMISSIONER DRUMMOND: Well, it would be your view then that industry would not undertake this vertical integration an actual production job if these special guarantees were not provided?

MR. PATTERSON: The attraction would be less, but they would, I am satisfied, develop more vigorously through the program of contract, which is one step in the vertical integration field. In that case they would use their bargaining power to get the cost of the product down to the absolute minimum, but they themselves would be assuming no risk in so far as price is concerned, as a drop in price or any factors in the production.

COMMISSIONER DRUMMOND: And apart from this special set of circumstances, do you feel that industry,



that there is any inevitably about the development of vertical integration? Are there other reasons why industry would be interested in undertaking it?

MR. PATTERSON: Yes, I think so. Mr. Platt likes this particular aspect, and I will let him deal with it.

MR. PLATT: I do not think there is any inevitability, and the disadvantage sometimes of other issues besides these factors that are involved, the inevitability of economics, of any economy, or economic process depends on whether or not man decides to interfere with it or not in the form of government or that sort of thing. Of course in this particular case in its fullest concept vertical integration is a means of production control. Production control has to be used if you are going to carry on agricultural processes on an economic level, but there are other ways that production can go too. Granted no interference from anyone, government or producers, I would say that the probability of vertical integration will take over, but both the producer and government are interested in this thing as well, and they may have a set of circumstances where vertical integration will not go ahead, but another thing to accomplish the same thing will.

COMMISSIONER DRUMMOND: We have heard it said by industry that they are very concerned about the problem of getting particular kinds of



commodity that they want with a particular degree of regularity that they want and that sort of thing and for reasons such as those they are compelled to think of the contract integration and, secondly, taking over of ownership at all levels, do you think those factors are really as significant as it is sometimes suggested?

MR. PLATT: No, not particularly. They can be in certain local areas with certain products at a given period of time, but I do not think they are the main underlying factor.

MR. PATTERSON: I might say there too that industry, the processing industry has directed production very largely in the past by the use of price to direct the production, and they have used it very unrelentlessly in some instances, particularly in the case of those commodities, use hogs or eggs or poultry as an example, where the production cycle is relatively short. In that case you can be in and out in a short time, and you will find that even in the anticipation of possible surplus of this particular commodity prices will be depressed quite far beyond the area of justification in so far as what is coming on to the market. They have a feeling that in two or three or four or six months time there is going to be a much larger volume available, and their prices are set to receive that particular volume. Sometimes they find themselves in the embarrassing position with the visible supplies diminishing drastically



and then the prices spiral upwards beyond any degree of reason at all, it is merely a control by the industry of the price factor.

COMMISSIONER DRUMMOND: And you state the prices you are having to pay for advantages which are merely a passing phase, I presume you mean a lot of farmers are agreeing to enter into contracts in order that they may get the advantage of, say, credit or something like that, and you feel that while that may be a temporary advantage, if enough people do this for long enough, the first thing you know the entire control of production will be in industry's hands?

MR. PATTERSON: That is so, and there are evidences to substantiate that viewpoint where the contract has been in the hands of the individual as long as it serves the purpose and as soon as it gets enough of the bugs out of the business of production and so on, they take over that aspect of it which may be production, processing and so on. I might add one other point there, that I had in mind when we put that in, was the fact that the advantages which we have from bigness, as it were, in the operation, advantages of lower price or, take the corporation as a whole may be controlled above that level at some time or another, the advantages we now have, because of the extreme competition right from the producer up through the chain of events up to the ultimate consumer, as this process moves along, and as the competition is



removed in the field of retail, it is taken over, perhaps the processing industry, it comes down and it eliminates the competition on the producer end of it for products they can produce for a market, and unless they produce and maintain a surplus of food commodities it would be totally impossible for any organization to maintain production at a level that is going to only match consumption without having a surplus to guarantee their operation. So I say in the two aspects that there is a real danger which looks perhaps rather attractive at the present time in some respects, and it may well be said that the big operation can say today, "We can produce broilers cheaper than the farmer, or hogs cheaper than the farmer can" when the whole operation is combined. We are very very doubtful that that benefit will continue.

COMMISSIONER DRUMMOND: You probably agree that in theory at least the integration process should eliminate the risks which --?

MR. PATTERSON: Some risks, but not stock risks, not risks of production that we always have to contend with. These things would be from economic pressures, world pressures would still be there.

COMMISSIONER DRUMMOND: Yes, but the type of risk would simply be the risk of not knowing what the other party was going to do.

MR. PATTERSON: Yes, to a very large extent. I might say there too that a real danger here, and I refer to it dealing with a large operation at



any rate, the danger of over-capitalization or over-expansion. That is on page 8, and still referring to this type of operation I added to what is there that I expect this area has already passed the saturation point, that is the expansion of supermarkets, and it has to be expected that operating expenses as to percentage of sales would increase, as the sales of these institutions would diminish, as competition in that field increased, and once beyond the position where there are enough customers to buy all the goods they can put out in a day then things would automatically go up which is a very notable observation. In some of our cities, particularly the city of Winnipeg at the present time, you get the advantages up to that point, and I would say here that in this whole business of production where you have an industry that is producing, say in the case of broilers, you have certain built-in guarantees, and as long as you have enough little fellows around, while they are producing up to an absolute market and something happens and their production does not go through up to their sales, they can still pick up their products from the little fellow and make it up enough to operate on. But once they get beyond that, and the sales drop then they are in a position that the costs are going to go up, which I think is very noticeable in the case of some industries. The most noticeable in Canada would be the newsprint distributors where in a period of extreme shortage, corporations went ahead, paper



companies went ahead and instead of one of them increasing their production, say 10 per cent or 20 per cent, everybody increased their production very substantially, and as a result they have to maintain, even though they have a surplus, a very definite surplus of a commodity, they have to shut a lot of these plants down, but they still have to carry the capitalization and overhead.

COMMISSIONER MARTIN: I would like to have that point on page 2 that was raised by Dr. Drummond clear in my mind. It is in the last paragraph on that page when you mention that the margin between cash and net income per average farm increased, which means, if I am right, that to get the same income you have to spend more. Is that what it means or otherwise that the price of farm supplies increased more --

MR. PATTERSON: That is so.

COMMISSIONER MARTIN: And I would like to ask you one question, you refer in your brief to the farmer's share of the consumer's dollar, do you look at those figures as always a true picture of the farmer's situation, or more or less as an indication that changes have taken place in the whole set-up of merchandising or processing?

MR. PATTERSON: Well, I think that shows quite a wide area in there if I get your question right. There is a very real possibility that by the time you get these figures, and we set them down, they are so much out of date that they do not apply



to the current situation. On the other hand, some of the factors that cause that spread could be different, that is the costs in merchandising, the costs in processing if they are not as efficient as the farmer's operation.

COMMISSIONER MARTIN: Or simply the increase in the number of operations in processing and so on?

MR. PATTERSON: That is so, that is very definitely so, and there is no question, as I referred further on in the brief, that on the basis of their current operation, and the type of operation, processing, merchandising and distributing that they are carrying on with, there is no question in my mind that in many cases excessive spread can be justified, but it cannot be justified on the basis of a sensible and practical method of operation, nor can it be justified on the argument that this is what the consumer demands, this is the type of service the consumer wants. I would give you as an exaggerated illustration, exaggerated to the extent that it does not apply on every point, but here is a little country village that in one week they get a call from a baker's truck 27 times, calls at their door, and not from the bakery 10 miles down the road, but literally from the bakery that is located any where from 75 to 135 miles away. Now, that is to say the least a ridiculous sort of system of distribution when you consider that milk trucks and bread trucks which are handling the product that



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in effect is the backbone of our economy, that type of operation is necessary or is being carried on throughout the country, and at the same time the producer getting less and the cost of production for producing the commodity. No, we do not believe that that is consumer demand in any way, shape or form, it is merely for the large organization to build up, as one of the bread companies frankly admitted to me the other day, that this is a losing game, this country business, and it is only carried on in order to build up volume.



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In other words, possibly for a plant that is capable of producing so many thousand loaves of bread in a day, and they have got to find a place to get rid of that bread and get it on the market, otherwise their costs are going to go up. We do feel the price today is entirely out of line altogether on the basis of the costs involved in a reasonable type of operation.

COMMISSIONER DRUMMOND: If it is a losing game, if it is a fact that they undertake this in order to get the so-called economies of scale in their processing plant, they have larger volume there, which would probably mean their per unit cost would go down. If it is still a losing game that must only mean that their lower costs at the processing end are more than offset by the extraordinarily high cost at the distributing end throughout the country?

MR. PATTERSON: I would say that in some of these products, the large centres are being extremely penalized in terms of cost of the commodity in order to subsidize this unreasonable and unwarranted and undesirable operation throughout the country. There is no reason in the world, if the chain store operation -- and if the figures I have are correct -- are able to buy from these organizations and able to squeeze down the price to $8\frac{1}{2}$ or 9 cents a loaf, there is little to justify the price that is being paid for this bread by the people in the city.

COMMISSIONER DRUMMOND: It is not a losing game for the company as a whole; it is only that part of the business that is losing, and they more than make



up for that ---

MR. PATTERSON: Oh, yes, that is right, but they do obtain the price in the city to subsidize the country operation.

COMMISSIONER MacKICHAN: Just a question or two. In these past few days, particularly, in another part of this building the matter of surpluses was a matter of very grave concern, and I was wondering, on page 4 in the third paragraph, where you mention farmers have stepped up their output to the maximum, does that mean surpluses are finished, or would ---

MR. PATTERSON: I am sorry, I cannot hear the question.

COMMISSIONER MacKICHAN: In the third paragraph you mention producers have stepped up their farm output to the maximum: then, we would not have any more surpluses if we are at the maximum?

MR. PATTERSON: Well, maximum within the area in which they are operating; but, in almost all of these operations they can expand that operation by various ways: by investing more capital, and by doing this and by doing that; they can certainly increase their productivity.

COMMISSIONER MacKICHAN: That is what I was afraid of.

MR. PATTERSON: Perhaps I left the wrong inference. By injection of capital into agriculture, which is -- and I would say some of these operations, perhaps, are almost to the limit at the present time in the type of operation they are carrying on, but if more capital was available there is no limit to what



can be done. We could produce, for instance, all the eggs needed in Manitoba in one city block. You might have to go up a little bit, but it can be done.

COMMISSIONER MacKICHAN: This may be a minor point, and Dr. Drummond probed at it a bit, but, from the representations we have heard from producers generally, and considering the source from which the vertical integration was coming, we just didn't expect to find the word "advantages" used.

MR. PATTERSON: Well, they are taken as advantages by the consumer. We don't, of course, consider them as advantages.

COMMISSIONER MacKICHAN: I am sorry; that was my interpretation.

MR. PATTERSON: They are temporary advantages to those who are patronizing or have access to those areas; but they are only passing. When we look at this thing, which we have to do, in a very objective manner and over a long-term period, this is only something that is of a temporary nature and what we figure will certainly mitigate against the interests of the consumer in the long run.

COMMISSIONER MacKICHAN: Another minor matter on page 12, in the second paragraph: you mention that government may have to give attention, if they are going to keep any semblance of order and prosperity is to be maintained in production and marketing, to farm organizations and consumer groups. We would feel that merchandising, profit-wise, was doing very nicely, thank you, and would not need any further



assistance just at the moment.

MR. PATTERSON: In merchandising?

COMMISSIONER MacKICHAN: Yes. I take it that is serving the customer -- at the retail end: would that be the field you have in mind?

MR. PATTERSON: No, I have in mind, sir, the impact of a total vertical integration programme, which is conceivable, and if such were to take place we don't think that it would be in the interests of Canada as a whole, and we do feel that the pressures that are presently being exerted by the producer for some assistance or some help in getting a fair share because of the lack of machinery -- I think perhaps that could conceivably be reversed, and the pressure would come from the consumer a little later on. If the farmer is eliminated, he is out of the picture, but you still have to sell; you still have the consumer, and I could anticipate that under a system where you don't have the surplus, and the farmers want to produce and keep around as a matter of security -- perhaps ill-founded -- if it is removed, then you will have not just a periodic period of excessive prices such as in the case of hogs last year when they went up to $37\frac{1}{2}$, and in a matter of months are down to 22 -- $22\frac{1}{2}$ in Winnipeg. It would be quite easy to keep the prices up there as long as there were not outside pressures that mitigated against that process and put them down.

COMMISSIONER MacKICHAN: Would you care to comment on paragraph 3 on page 15, which is written in fairly strong language?



MR. PATTERSON: Well, I think I would say that that is precisely what would be inevitable if the current so-called trend continues, that you would not have rural Canada any more in the sense we see it today; that these people would become labourers; they would have to move somewhere; they would have to go into the cities. You would have a situation where there would not be a market for the manufactured product in the country to the extent there is today, and you would lose the benefits that Canada has had over the years from rural society, which we feel has a tremendous impact on Canadian stability as a whole.

COMMISSIONER MacKICHAN: It is not contained in the brief, but would you comment on this trend of the movement from the farm to the city? What are some of the implications of that? Personally, I think it has wide implications.

MR. PATTERSON: Yes, it covers quite a wide area, but one of the main reasons, the basic reason, is because of the deterioration in the agriculture economy. We recognize that in any system whereby production is controlled by price that you will have that type of thing, and as price is reduced you will eliminate the various categories as you come down the scale, and that is precisely what is happening today in Canada and in North America where you have got different groups eliminated at different levels, and that will continue, but it won't necessarily mean that because you have fewer farmers you are going to have lesser production or lesser surplus -- in



fact, the opposite is very often the case, because the small farm -- to go to the extreme and say a farm of 40 acres or 160 acres, that is maintaining a family, if that family is removed from that quarter section and someone else takes over who already has a fairly large operation, then, if he has been growing grain on that farm in the first place, the total production of that farm then will be in terms of perhaps one commodity, which will add to the surplus situation which they already have.

COMMISSIONER MacKICHAN: This movement off the farm must have some very, very definite bearing on the unemployment situation. Would you agree?

MR. PATTERSON: We would, quite definitely.

MR. PLATT: Could I say a word on that question, which concerns me quite a bit. We recognize, of course, that with the advent of technology that very probably the movement that we have always had off the farm will be accentuated, but one of the things that concerns us very greatly is the kind of people who are moving off the farm. In the first place, you are forcing off people who don't have access to capital. If you have access to capital, you can usually remain, but this business is not a question of forcing the most inefficient producer off. It is forcing off the person who does not have access to capital, and because the economic rewards are very low in agriculture at the present time, you move off the man who has greater than average natural ability.



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He is able to move into the city and adjust himself to city conditions that much more quickly. In other words, if he has a secondary trade or anything like that he can move, and age is also a factor. You can move off a young man much more easily than you can an old one, and this sort of thing has a tendency to reduce the general level of -- I don't like to use the word "intelligence" but that is as close as I can think of at the moment -- of the rural people. At the very time when they should be kept there and you should be keeping the brighter people in agriculture. We are losing them and getting a level of less bright ones on the farm.

That is perhaps the most significant part of the movement from the farm.

COMMISSIONER MacKICHAN: If some of the more efficient people are leaving the farm do you think there could be any benefit by supplying them with capital to increase their inefficiency?

MR. PLATT: Pardon?

COMMISSIONER MacKICHAN: Are we going to have any solution by providing capital to an inefficient farmer?

MR. PLATT: Oh, no. You can't serve any useful purpose by providing capital to an inefficient farmer. You certainly can do a great deal by providing capital to an efficient young man.

COMMISSIONER MacKICHAN: I agree.

MR. PLATT: Who would otherwise move out of the industry.

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COMMISSIONER MacKICHAN: I agree.

MR. PLATT: Of course, we might add to that there are possibly different reasons that he has been inefficient.

COMMISSIONER COUVRETTE: The Royal Commission you mentioned was in 1937. That is the Stevens Royal Commission?

MR. PATTERSON: Yes.

COMMISSIONER COUVRETTE: That is the one you referred to?

MR. PATTERSON: Yes.

COMMISSIONER COUVRETTE: On page 4, the fifth paragraph, the last line, you say:

"It has been said that one per cent surplus production lowers price by 8 per cent."

Does that mean surplus production of all farm products or does it apply only to grain because at a former part you mentioned specifically grain?

MR. PATTERSON: No. It refers to any of the food commodities that are on the open market where there is no degree of protection or support of any kind. A small surplus will have a very definite effect.

COMMISSIONER COUVRETTE: Of all farm products?

MR. PATTERSON: Yes.

COMMISSIONER COUVRETTE: Just one question to make it clear to my mind. Am I right in saying that in the brief you have somewhat expressed in a general way the opinion that the retail operations of the day



-- that their operations are getting to be too costly and are likely to get more costly and that in order to succeed on a competitive basis they must meet competition which would be in most cases independent competition; they would have to exercise pressure in their buying power to get goods at lower prices and force back lower and lower prices to the producer. Is that what you mean?

MR. PATTERSON: Yes, that is so, Mr. Couvrette. There are two factors in here. Now, I would say first that we believe that food products, farm products, should be advertised and we believe that food products should be advertised, but we also believe that there is a limit to that field which can be justified.

In the second place it is generally conceded that the lower price of a commodity the more -- put it in the reverse -- as prices go up they run into a certain degree of consumer opposition, buying opposition and resistance, and so their volume will be somewhat reduced so that food prices are kept down, which would be to the advantage of the operator, whether he be a large operator or whether he be a small; but in order to carry out this type of programme, as you have suggested, as competition becomes keener at that level of merchandising, it is conceivable that more and more and more will be poured into the business of promotion and advertising and so, to keep ahead of the game and if they can't get the prices up the logical thing is to push them down at the bottom.



I think it can readily be agreed that some of the procedures that have been used today in promotion were certainly not dreamed of a year or two ago, as far as merchandising food products is concerned.

I am not going to say it is all bad but I will say this: if that type of thing is necessary, if that type of thing is desirable or if that type of thing is demanded by the consumer then the consumer should pay the bill and not penalize the producer who has, in effect, little resistance in so far as prices are concerned.

COMMISSIONER COUVRETTE: Yes. Well, the point I wanted to get at is this: in other words, whatever methods are being used costs are higher and if they paid the right price to the processor, which in turn would mean a fair price to the producer, they would have to sell at a higher cost to the consumers?

MR. PATTERSON: That is right.

COMMISSIONER COUVRETTE: Therefore, to be competitive against another type of smaller independent store, they take unfair advantage of their buying power to get lower prices than they have the right to?

MR. PATTERSON: That is so. Not only on the producers but it is on the processors or secondary industries in between.

COMMISSIONER COUVRETTE: From them back to the processors?

MR. PATTERSON: That is right. If the margin under which they operate shrinks then they have to find ways and means of moving it up and the only



thing that has any elasticity is at the bottom level where they can take it from the producers.

COMMISSIONER COUVRETTE: Mind you, speaking for myself, I am on the retail side of the picture not on the producer's side. I mean by that in other words again, if the independent retailers were able to get their goods at the same price as the large organizations they would be able to be more competitive.

MR. PATTERSON: Yes. Here again you have both pressures of buying, a buying monopoly as well as a sales monopoly and you have large organizations who can buy or can sell a product cheaper than a small one can buy it.

COMMISSIONER COUVRETTE: And may we imply from your brief that in your opinion, seen in the few pages of this brief, that if this would be regulated the consumer would not be the loser at all at the end by paying higher prices or having to pay a high price?

MR. PATTERSON: Well, the consumer would conclude that if their prices went up, well, they were paying too much, possibly.

COMMISSIONER WALTON: She wouldn't buy?

MR. PATTERSON: Pardon?

COMMISSIONER WALTON: She wouldn't buy or she would substitute?

MR. PATTERSON: In some cases, yes, but we have detected in the last two or three years on the part of the consumer, I believe, a more sympathetic attitude towards the producer. It has shown up in the attitude of the consumer organizations to price increases of



recent times where they have shown little resentment to increasing where the producer was given the benefit.

I will say, of course, that applies -- perhaps we should say lesser resistance than there was previously noted in terms of statements.

On the other hand the consumer seemingly does not react in the same way to price increases in general in the past which have gone up in total as far as their particular commodities are concerned, in the type of service and the type of packaging and so on that they are getting. She will pay the higher price even though the total food content of that parcel is less than it was before.

COMMISSIONER COUVRETTE: Mr. Patterson, it seems we are now taking for granted that prices would be higher but it seems to me that in your brief you have indicated since the large operators have higher costs on account of their special type of very extravagant operations, they have, in order to meet competition, forced back their buying power and other levels back to the farmer?

Now, if they paid the prices that they should pay and they would direct a fair share of the dollar back to the farmer then it does not mean that the independent would have to pay more than he pays today because he is not benefitting by his buying power. He has no buying power. He is paying more than he has a right to so it doesn't mean, according to me, that he would have to have higher prices. That was my question: would the price be necessarily higher at the



consumer's level if, as indicated in your brief, costs of large operations are higher? That doesn't mean that costs of independent producers would become higher. They would remain the same.

MR. PATTERSON: Yes. You are right, sir. You are right and we might use this as an example.

A country baker today is selling bread at 12 cents a loaf, and I would say maybe better bread than what you buy in the city. At the same time the big organizations that are peddling the country have to get -- what is it -- around 16 cents to 17 cents a loaf, but the service in between -- this loaf in the country is 12 cents and is neither sliced nor wrapped but it is in a community where it is the simplest thing in the world to get bread every day, but the consumers are paying that extra for that extra type of service in between which adds materially to their cost.

If we had a similar system as before and if these organization confined their operations to the areas within reason they could sell bread, say, in the city of Winnipeg for three or four cents a loaf less; the same product and the same servicing that you are getting today but you eliminated any running around the country. You see what I mean? You eliminate that. The consumer in turn would pay -- either the consumer would pay less or the producer could get more. Benefits could accrue from realistic adjustment on the retail level -- processor-retail level could be handed back to the producer. The producer could get a realistic price for his product. The consumer would



still be getting the same service she is getting today and the little fellow, as you say, the little fellow in between would be in a better competitive position than he is with the type of thing that is going on today. Do I make myself clear?

COMMISSIONER COUVRETTE: Oh, yes, thank you.

COMMISSIONER DRUMMOND: One question on page 12. I just noticed you say:

"For the last two years the share going to the packer has been lower, while the retail share has been higher."

How do you explain this?

MR. PATTERSON: I think that again, sir, has some significance. I have not discussed this thoroughly with the gentleman that did this study. I think that has significance and bears out the point that we made a little while ago that the pressure here is not coming on the producer. While we look at the packing industry as being something that is pretty big there are other people that are perhaps bigger. He has to distribute that product. I think this again is significant there that while that share is less the retail share is increased by approximately 50 per cent at the same time in a period when large operations, large retail operations have made very rapid strides. That is the chain store operation, and in the City of Winnipeg today or in any city perhaps, where the chain store operation has developed substantially I think it would be fair to suggest that a very large percentage of the retail trade is being handled from the chain store



level so that even though the consumer has a price which is such-and-so, the processor is not getting any more and the farmer's price is such-and-so, a percentage of it is being taken by that type of operation, which would indicate that bigness does not always result in lesser costs.

COMMISSIONER WALTON: Mr. Patterson, on page 9 at the bottom you say:

"At the same time, there is little to suggest that prices on the world market should dictate domestic food prices."

But I hear you say "We readily agree that in an industry dependent very largely on the world market as a yardstick for prices, every effort must be made to remain competitive." Would that be the grain grower and the wheat farmer? They do not produce just for the Canadian market and the Canadian market is a very small operation. Would you suggest then a two-price system where we are producing both domestic and for the world market?



MR. PATTERSON: That is one way it could be done, Mrs. Walton. You see, there really is not -- we hear a lot about free world markets, the law of supply and demand and so on, but in the world market actually there are no world prices. I was interested the other day to hear the Minister of Agriculture, I think it was, refer to that situation in a survey of the prospects of markets in the world for Canadian products, and he said there are no world prices any more. Prices for grain and other commodities have been subsidized by these various recipient countries, these "have not" countries, and which has a very definite effect on what might be interpreted as a world price. You see, in everything that the farmer produces, that the consumers buy, we contribute to the maintenance of the standard of living in Canada. All our costs of operation are factors contributing too, which indicate a standard of living that we enjoy, and as these costs increase and our prices -- and we cannot pass them on to anybody, we cannot earn any more in the world market, than the consumer price or the local price, the domestic price has been taken as what is being interpreted as a world price. It puts the individual producer in an almost untenable position in trying to meet the rising costs of production, and the recipient in trying to produce more to offset it. It is the same as you find in the cities or towns where an individual on a certain wage level, if he lives up to a point, but as his costs, whether



by his own doings or the economic forces price him out of that category, then you find he takes another job to supplement his income, or puts his wife to work or the kids go to work, or some other way. That is his only way to make up or combat the force, so-called inflation, and it is the same with the farmer, he responds in the only way he can by producing more. So, we say there is no reason why, no logical reason why producers price on the domestic or the domestic price of the farm products should be tied to a world level, or the price existing in the world market.

COMMISSIONER WALTON: Would you suggest butter is tied to a world price?

MR. PATTERSON: No, but the major products that we have to depend on a world market for, those products are, particularly the farmers, are particularly vulnerable in those particular commodities.

THE CHAIRMAN: Mr. Patterson, I would not like to be misunderstood, and I hope you will not think it is discourteous, but we would like to thank you for a very clear exposition of the facts as you see them. This has been of interest to us, and there is only one point I would have liked to proceed with with you, but I think it is outside the terms of our reference, and that is what we feel about the surpluses in the developing situation. I do think this is a little outside of our terms of reference so perhaps some time we may sit down



together and talk about it.

On behalf of my colleagues I would like to thank you very much for the discussion which we have found to be extremely interesting.

MR. PATTERSON: We thank you very much, Mr. Chairman, and if at any time you want to discuss any aspect of this **problem**, or anything relevant to it, I can assure you we have some very definite views on it, and would be very happy to discuss it with you.

THE CHAIRMAN: Thank you very much. We will adjourn now until 10 o'clock Monday, November 17, 1958, when we will hear the brief of the Manitoba Sugar Company Limited.

--- The hearing adjourned at 12.05 to resume on Monday, November 17, 1958 at 10 a.m.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION ON PRICE SPREADS
OF FOOD PRODUCTS

Proceedings before the Royal Commission on Price Spreads of Food Products resumed at 2.00 p.m. on Wednesday, November 12th, 1958, at Ottawa, Ontario

CHAIRMAN:

Dr. Andrew Stewart

COMMISSIONERS:

Mrs. Dorothy Walton
Mr. J. Howard MacKichan
Mr. Romeo Martin
Mr. W. Malcolm Drummond
Mr. Cleve Kidd
Mr. Bernard Couvrette

Secretary

John Dawson

Assistant Secretary

A. A. Caron



Monday,

November 17, 1958.

--- On resuming at 10.00 a.m.

Submission of

THE MANITOBA SUGAR COMPANY LIMITED

Appearances:

Mr. W.R. Hetherington

Vice-President and
General Manager.

THE CHAIRMAN: The first submission this morning is on behalf of the Manitoba Sugar Company Limited, and will be presented by Mr. W.R. Hetherington, Vice-President and General Manager. Mr. Hetherington, would you come forward please and be seated while you read the brief.

MR. HETHERINGTON: Thank you. Mr. Chairman, members of the Commission, this is a brief on behalf of the Manitoba Sugar Company in connection with your inquiry into the price spreads on food products.

Sugar is one of the few major agricultural commodities produced domestically, yet supplied in substantial volume from foreign sources. Over 80 per cent of Canada's sugar supply is refined from raw cane sugar imported from foreign sources. Over 80 per cent of Canada's sugar supply is refined from raw cane sugar imported from tropical countries

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the balance is supplied by the Canadian beet sugar industry.

The economics of the cane and beet sugar industries are quite different, yet the basic product of each is identical - refined white sugar. It is an acknowledged fact that cane sugar can be produced more cheaply than beet sugar. To succeed in the face of this competition the beet sugar industry has had to depend on a certain degree of protection from tariffs, quotas and other similar artificial devices and to take advantage of any geographical factors which prove favourable.

The types and degree of national protection provided are many and varied. In the United States, for example, a very complex system is applied. The group of countries permitted to supply the United States market is closely controlled and quotas are imposed. Import and excise taxes are levied and a subsidy is paid to sugar beet growers. The manipulation of quotas by the United States Government has the effect of preventing wide fluctuations in sugar prices. It also has the effect of maintaining comparatively high prices for sugar with attendant advantage to the domestic sugar industry and assures a market for its production. In Canada the industry receives a certain degree of price protection through tariffs on raw cane sugar, but no market protection.

Canada buys her raw cane sugar in what is termed the free world market - a market in which



prices are subject to a high degree of instability and a market which is influenced by frequent conditions of surplus and over production. This has generally meant relatively low raw sugar prices with occasional periods of fluctuating higher prices in periods of international tension or difficulty.

Efforts to stabilize the world market have taken the form of international sugar agreements and similar measures in which some form of international control has been attempted, aimed at stabilizing the supply and demand situation and eliminating fluctuations in international prices for raw sugar at levels which would prevent major economic problems in exporter countries. To date the agreements have been only partially successful as witnessed by the violent fluctuations during the periods of the Korean War and the Suez crisis and by the depressed levels which followed. It is, however, interesting to note that a new international sugar agreement has been reached in recent weeks in which a greater number of countries than ever before have joined.

Since the major item of cost to the Canadian sugar refiner is the cost of raw sugar, these fluctuations in world prices must be reflected in refined cane sugar prices in Canada.

The price of cane sugar at any point in the marketing area in which the Manitoba beet sugar industry competes is made up of the list



price at Montreal or Vancouver, plus freight to destination - whichever basing point price, plus freight is the cheaper. Against this price a differential or discount is applied - currently 20 cents per hundred pounds in Manitoba. In Saskatchewan Manitoba sugar is sold at a discount of 10 cents. Thus, Manitoba sugar is always sold at a price lower than the cane sugar prices at any point in its marketing area. This so-called basing point system is not unique or peculiar to Manitoba - this system, as far as we know, is used throughout Canada and the United States and in most other countries with free economies. This pricing system permits Manitoba to take advantage of its geographical position, as reflected in the cost of transporting competing cane sugar from Montreal to our marketing areas. Without this natural protection the Manitoba beet sugar industry would not have been initiated, nor would it have been successful.

The following price figures may be significant.

I should point out we have no influence or control over prices beyond our manufacturer's list price levels. The prices which follow are for the sales year or fiscal year from 1949 to 1958.



The average net price of sugar, Winnipeg
(manufacturers) delivered price for
cotton 100 lb. Bags.

Oct. 1/48 - Sept. 30/49	\$ 9.10
Oct. 1/49 - Sept. 30/50	9.65
Oct. 1/50 - Sept. 30/51	11.17
Oct. 1/51 - Sept. 30/52	10.47
Oct. 1/52 - Sept. 30/53	9.47
Oct. 1/53 - Sept. 30/54	8.91
Oct. 1/54 - Sept. 30/55	8.87
Oct. 1/55 - Sept. 30/56	8.91
Oct. 1/56 - Sept. 30/57	10.75
Oct. 1/57 - Sept. 30/58	9.25

The net price of beet sugar today is \$8.71 -
this price having been effective since July 9th
this year.

It is evident that the price of sugar
in our marketing area is largely governed by
factors beyond our control and indeed by factors
which are outside of Canada's control. It has
therefore not been found practical to establish
a fixed dollars and cents value for beets.

In Manitoba, as in most beet growing areas
on this continent, the practice is to relate the
price of sugar beets to the price of sugar. Each
year previous to planting the Producers and Company's
representatives meet and decide on terms of the
year's contract. Previous to 1956 agreement was
reached only with great difficulty, and indeed
in early 1955 the provincial Minister of Agri-
culture intervened to prevent what threatened



to be a collapse of the industry in the province. A new contract was negotiated, however, by a new company management in 1956 incorporating more favourable terms for the growers and providing a direct relationship between sugar prices and growers' returns. Under the current contract the growers receive a maximum of 63 per cent of the net returns from the sale of sugar.

Apart from the fact that until 1956 a great deal of difficulty and controversy was involved in the negotiations of the beet contract it should be noted that the trend has been for the producers, the beet growers, to obtain an increasing proportion of the sales value of the sugar derived from their sugar beets. A few examples will illustrate this point.

The average of the past ten years' crop operations shows that the average quality of sugar beets in Manitoba is indicated by a sugar content of 16.25 per cent, a purity of 84.25 per cent and an average extraction of 253 pounds of sugar per ton of beets bought. Applying these typical figures against the contracts which covered each of the past ten years' crops we obtained the following prices for sugar beets per ton, based on a net return for sugar of \$8 per hundred pounds; and I show an increase from \$11.13 in 1949 to \$12.55 in 1958:



1949	\$11.13
1950	11.33
1951	11.63
1952	11.08
1953	11.78
1954	12.03
1955	12.10
1956	12.24
1957	12.55
1958	12.55

In terms of the proportion of the sugar dollar received by the producer, it is calculated that in 1949 he received 54.9 per cent. This proportion has increased gradually such that for the 1957 crop he will receive 62 per cent of the sugar dollar. Again, we speak only of our own list prices.

We summarize as follows: 1. The Manitoba beet sugar industry involves a unique degree of co-operation between producer and processor. The basic nature of the beet contract is such that in several major respects interests of grower and company are common. This essentially is also prompted by the basic competition between beet and cane sugar, a competition which is described as fundamentally between the entirely different systems of agricultural economy which these two crops support.

2. The price of Manitoba sugar has not followed the general price trend of commodities



in Canada and is, in fact, selling at a price today lower than that which was in effect 10 years ago.

3. While the Commission is concerned by the tendency for the spread between prices paid by consumer and prices paid to primary producers to increase, we submit that in the Manitoba beet sugar industry the reverse has held true. The primary producer now receives a larger share of the sugar dollar than ever before.

THE CHAIRMAN: Thank you, Mr. Hetherington.

COMMISSIONER MacKICHAN: Would you please elaborate a little bit on the latter part of paragraph 2, or, the second complete paragraph on page 2, regarding the international agreement?

MR. HETHERINGTON: Well, we don't have complete details as to the nature of this final international sugar agreement; however, it seems to be very similar to the one which was in effect previously. The point in particular is that the exporting countries agree to limit their production or the amount that they will sell according to quotas which are established under the terms of this international sugar agreement. At the same time they agree to abide by certain reserves, times of selling, and so on, which are controlled by the council of the agreement in an effort to limit the price of raw cane sugar on the basis of f.o.b. Cuba to between, I think it is, \$3.15 as a bottom price, and, I think it is \$4 or \$4.15 as the ceiling price; and that has been the major point that the



international sugar agreement has been after through juggling quotas and holding back on production to prevent the terrific fluctuations that have occurred from time to time.

COMMISSIONER MacKICHAN: It should tend to somewhat more stability or more evenness?

MR. HETHERINGTON: Yes, the whole point of the international sugar agreement is to stabilize the market, especially in view of the fact that the world has a tremendous potential for the production of sugar. One thing brought it to a head: In 1952 Cuba came forward with a production of over \$8 million, and could only sell about \$5 million, and since that time, aside from the Suez crisis, especially because of the fact that she has that potential with very little effort, it has been a depressing influence on the world market.

COMMISSIONER MacKICHAN: Well, it may be stretching the terms of reference a little bit, but it has to do with the price of sugar: What would be the effect of this very disturbed political situation in both Haiti and Cuba?

MR. HETHERINGTON: I think those are a little too local in nature to disrupt the market. Most of the international problems have been of a nature where the shipping was disrupted, which occurred at the time of Suez. It so happened that Suez occurred at the time the statistical balance between supply and demand was very, very close, but then shipping was disrupted entirely by the Suez crisis, and then



there was a scare of war and the so-called invisible inventories went up, and there was an artificial demand, which was quite unreal, created.

COMMISSIONER MacKICHAN: You mention at the bottom of page 3 the prices delivered in 100-pound cotton bags: Will you tell us what the relationship might be with the amount of sugar that is turned out today in 100-pound bags versus fives and tens?

MR. HETHERINGTON: I haven't got exact figures here, but in our particular location, I would say approximately half of our production is sold in 100-pound bags, and the balance in packages. That is a very rough figure, but it depends entirely on your type of market; whether you have a large number of manufacturers etcetera, and it may be quite different for another sugar company.

COMMISSIONER MacKICHAN: In a great many of the retail and particularly the chains, you find the package -- either fives or tens -- is about the only thing you will see around?

MR. HETHERINGTON: That is right. I do believe that the largest part of the 100-pound bags goes to the manufacturers rather than to the immediate householder.

COMMISSIONER MacKICHAN: And industrial plants and institutions, possibly?

MR. HETHERINGTON: That is right, yes.

COMMISSIONER MacKICHAN: In this division of 63 per cent to the producer or the grower, the



word "maximum" comes in. The maximum of 63 per cent indicates it may be lower: How are these divisions of the total dollar divided -- what formula is used?

MR. HETHERINGTON: Actually, that 63 per cent is a maximum at \$8.50 net return. I mention that because at the present time, at the present level, the net return is approximately \$8, which would mean the farmers get 62 per cent at this moment. The reason for the tendency to scale the percentage according to the price is possibly largely due to the fact that each year over a period of time the tendency in negotiation has been to increase a step on the upward side from originally, presumably, a lower percentage.

COMMISSIONER MacKICHAN: But would you say that a \$8 price for sugar, that 63 per cent is the --

MR. HETHERINGTON: Sixty-two per cent with a \$8 net return.

COMMISSIONER MacKICHAN: Could we infer from that, that that is a residual price to the grower?

MR. HETHERINGTON: No, it is not quite true, because regardless of what our costs are, we would still have to meet the market price.

COMMISSIONER MacKICHAN: You grant yourselves \$8 on the one side, and 62 per cent on the other?

MR. HETHERINGTON: That is right.



COMMISSIONER MacKICHAN: What are the by-products of sugar manufacturing?

MR. HETHERINGTON: Pulp and, of course, molasses.

COMMISSIONER MacKICHAN: Does that come in the 62 per cent?

MR. HETHERINGTON: No, that is separate; that is a separate contract.

COMMISSIONER MacKICHAN: And there is a division of that between the company and the grower?

MR. HETHERINGTON: Yes, there is.

COMMISSIONER MacKICHAN: By negotiation?

MR. HETHERINGTON: Yes. It comes up every year. The beet growers, of course, negotiate for all they can get, quite naturally, and there is a definite division of net return from molasses and pulp. At the present time molasses and pulp is such that the growers do not receive a division on molasses in effect -- in actual fact.

COMMISSIONER MacKICHAN: The reason I asked the second last question is that growers and farmers generally have been contending that there is the consumer price, and everybody else took their share and worked back, and they just had what was left.

MR. HETHERINGTON: Well, I don't think that applies to the sugar industry.

COMMISSIONER WALTON: On your third observation on page 6, your conclusion there that the



primary producer now receives a larger share of the sugar dollar than before, and, earlier, you mentioned there were subsidies paid in order to be able to compete with the imported product: Without those subsidies would you say at the producer's share might have been lessened?

MR. HETHERINGTON: The subsidies that I mentioned before were in respect of the United States; not of Canada. No subsidy has been paid yet in Canada to the beet growers. So, up to the present time, subsidies have not been a factor in the last 10 years in any case in determining growers' prices, or the growers' share.

There is just one point I might mention on that last thing, and that is, again, we can only set prices for the sugar on manufacturers' prices.

THE CHAIRMAN: In other words, the share you were talking about is related to the selling price and not to the retail selling price?

MR. HETHERINGTON: That is right. We have no influence beyond our factory doors.

THE CHAIRMAN: It would still be possible that the share of the consumer's dollar is declining?

MR. HETHERINGTON: It could be possible, but I doubt very much that that is the case, for the simple reason it is our own observation that sugar in general is a high volume rapid turnover low mark-up product; so, I doubt very much if you would find that the share of the dollar has



gone down on behalf of the producer; in fact, I think the contrary is quite true.

COMMISSIONER COUVRETTE: On page 4 you mention in the third paragraph that the practice is to relate the price of sugar beets to the price of sugar. What does that mean, exactly? Can you elaborate on that?

MR. HETHERINGTON: Well, the main point there, of course, is that there is no way of determining, in dollars and cents, the value in advance for a ton of beets, and the only way that the industry as a whole has been able to assure that the grower gets a fair share, to allow for the fluctuation in sugar prices, is to relate closely the price of beets to the price of sugar. In our particular case, we extract the sugar from a ton of beets, and the farmer, in effect, gets a percentage; at present I say it is 62 per cent. Sixty-two per cent of that sugar, in effect, belongs to the grower, and that is his payment for beets. We have to make our operating and manufacturing expenses and profits out of the remaining 38 per cent. So that, if the price goes up to 10 cents, he gets, in that case, 63 per cent of the 10 cents, and our balance would be 37 per cent of that 10 cents for our own operations -- company operations.

COMMISSIONER COUVRETTE: On the other hand -- or, at the other end -- I suppose it is written somewhere in the brief that the practice



is also to relate the price of beet sugar to the price of cane sugar?

MR. HETHERINGTON: That is right.

COMMISSIONER COUVRETTE: And the practice is to have a few cents per 100 pounds under the price of cane sugar?

MR. HETHERINGTON: That is right.

COMMISSIONER COUVRETTE: Perhaps this is a question that should not be asked of you, but how is the price of cane sugar itself fixed here?

MR. HETHERINGTON: Well, I may not be the best source of information on this, but I have a fairly good idea how the cane refiner establishes his price. It is basically the cost of raw sugar as quoted on the New York Sugar Exchange on the basis of f.o.b. Cuba, plus the freight of raw sugar from Cuba, plus the duty on raw sugar, plus the refiner's spread, which would be his cost plus profit, plus freight to destination; and that would be the list price that you would have to compete against at any point where we are marketing beet sugar.

COMMISSIONER COUVRETTE: It could well happen that the price paid by the consumers for cane sugar could be higher than it should be?

MR. HETHERINGTON: Well, that is quite possible. It was alleged, I believe, at the time of Suez that the price was too high. However, it has never been alleged that it is too low when there are many depressed periods of sugar prices



that the beet sugar industry has had, averaged over the years, because when the prices are low, we have no alternative except to meet their prices regardless of what our costs may be, or what the farmers' costs may be. So, over the years, it has been the practice, historically, and as far as I know it is the only successful system of pricing sugar for the beet sugar industry.

COMMISSIONER COUVRETTE: So that we can sum it up by saying the price of beet sugar is influenced by the price of cane sugar, but it is not the other way around?

MR. HETHERINGTON: That is right, in so far as Canada is concerned.

COMMISSIONER KIDD: Why is it necessary to maintain a somewhat lower price for beet sugar than cane sugar?

MR. HETHERINGTON: Well, two things, I think, are true: First of all, the case of value. The costs of production of beet sugar are much higher than that of cane sugar, and therefore the endeavour to market on a national production in a minimum area -- not exactly minimum, but one in which we can obtain a reasonable net return without losing too much on the cost of freight and sugar. The other thing is a matter of history: There has been prejudice against beet sugar, and possibly quite rightly justified up until about 30 years ago. At one time the refining techniques in the beet sugar industry were not up



to the standards of those in the cane sugar industry. However, that has long since been correct, and beet sugar is just as high in purity -- identical with cane sugar. However, prejudice does linger on, and throughout Canada and the United States it is one of the major reasons why the beet sugar industry still applies the differential on cane prices to get the business. A lot of people will buy on price, even if they doubt the quality.

COMMISSIONER KIDD: You say that under the current contract the growers receive a maximum of 63 per cent of the net return on the sale of sugar. First of all, what is the difference between net return and net price?

MR. HETHERINGTON: Net price is the gross selling price less the standard discount -- 1 per cent for cash, 15 days, at the present time. The net return is the difference between the net price and the cost of producing sugar in 100-pound bags at the factory. There are certain selling expenses which are, by agreement with the growers, shared by the growers and the company. We call them the beet sugar selling expenses. They normally take in items such as packaging, freight on sugar, insurance, and some shipping and handling charges.

COMMISSIONER KIDD: If 63 per cent is the maximum, what is the minimum?

MR. HETHERINGTON: I believe it is about 58 per cent at the moment. I really don't recall that figure. The possibilities of reaching that



now at the moment are very unlikely.

COMMISSIONER KIDD: How could it come down to 58 per cent?

MR. HETHERINGTON: It could only come down if there was a disaster in the world market prices for raw cane sugar. It has happened, historically. There have been tremendous fluctuations in the price of raw cane sugar.

COMMISSIONER KIDD: And these things are written into your contracts with the producers?

MR. HETHERINGTON: Yes, the lower end of the scale is there.

COMMISSIONER KIDD: These things are negotiated, and I was thinking it may be interesting to examine a contract and talk about it, but how are the figures established -- the maximums and the minimums?



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MR. HETHERINGTON: Well, I suppose the answer to that is by negotiation.

COMMISSIONER KIDD: I was thinking more of what are the factors that establish a maximum and a minimum.

MR. HETHERINGTON: Well, it is very similar to a labour contract. You might say the company's ability to pay in some respects is one, the comparison with what other sugar companies are paying.

COMMISSIONER KIDD: Some people would disagree with you that the ability to pay should be a factor.

MR. HETHERINGTON: That is quite true. It is very difficult just to point out all the factors which come into it.

THE CHAIRMAN: Perhaps you might ask it this way, Mr. Kidd. The percentage has gone up this last year?

MR. HETHERINGTON: Right.

THE CHAIRMAN: In your negotiations what factors might be said to result in an increase?

MR. HETHERINGTON: Well, I think, for instance, if you look at last year you would find that we extended the scale one step. In other words, I believe it was we paid previously $62\frac{1}{2}$ per cent at \$8.25 net return and last year it was extended to 63 per cent at \$8.50 net return. In other words, we felt that if the price increased another 25 cents we would be able to pay the growers an extra half per cent on the proportion.

Each year, of course, is a separate set of



circumstances. And again ability of the company to pay, or the ability to earn profits at certain levels and circumstances of the industry as a whole.

COMMISSIONER KIDD: These calculations are all worked out and written into your contract with the producers. Is there any restriction on the amount of sugar beets that the company will buy in a given year?

MR. HETHERINGTON: Yes. The company controls the number of acres which are planted to sugar beets.

COMMISSIONER KIDD: That is contract farming?

MR. HETHERINGTON: That is contract farming. Each farmer signs -- each grower signs a contract for a certain number of acres. Quite obviously if we just threw it wide open we might, for instance, in one year get two or three times as many beets as our factory could process and the next year we might only have half, but I would like to say it has to be controlled. I might say we work it out in acres, what we consider we can sell, what we can process, and in both of these phases the growers are consulted.

COMMISSIONER KIDD: I was thinking if it was done that way it might have quite an influence on price either way?

MR. HETHERINGTON: No. The success or failure of a crop does not necessarily influence the price of sugar in Canada. The influence on price comes from outside Canada.

COMMISSIONER WALTON: On this international agreement that you say more countries are coming in now,



is that an endeavour to stabilize prices and avoid these peaks and depressions?

MR. HETHERINGTON: Yes.

COMMISSIONER WALTON: Would you foresee the possibility they might be stabilizing the price higher and that this might in turn have an effect on your negotiations if it was stabilized at a higher price?

MR. HETHERINGTON: Are you speaking of the local producer?

COMMISSIONER WALTON: Yes, the sugar beet producer in Canada, if the sugar prices are stabilized at a higher level than is foreseen. You say it is the cane sugar price that influences the beet prices in Canada. Well, then, is it not quite likely that your producers, if they benefit from this higher price, would not be increasing the level?

MR. HETHERINGTON: I think the realities of the situation are it is very unlikely, at least in the visible future, that the world price of sugar will be stabilized at any level which might be termed high. The potential production of cane sugar in the world is enormous whether it is produced or not. It still hangs over the market, so I doubt it would go up.

The only other way, for instance, in which the Canadian production could be a factor would be if there was a government policy of quotas or something similar to the United States. The United States has a very detailed system and they have practically a quota of the market reserved for the beet sugar industry at protected price levels.

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COMMISSIONER DRUMMOND: With regard to this annual contract that you mentioned on page 4, which is made between your company's representatives and the producer's representatives, is that a voluntary agreement or is it under provincial legislation?

MR. HETHERINGTON: No, that is done quite independently. I took that question of the intervention of the provincial Minister of Agriculture out because previous to 1955, and including 1955, the type of contract had a number of deficiencies that was very complex. It was dependent on a number of factors which the growers could not understand; and so on.

The relationship between the price of sugar and the price of beets was somewhat obscure although it was in general based on the principle of relating the price of sugar to the price of beets. However, it was a very controversial issue and I might say when I went to the Manitoba Sugar Company in 1955, one of the basic problems to be solved immediately was to improve the grower-company relationship, and that was basically on the contract, the dollars and cents relationship between the company and the growers.

COMMISSIONER DRUMMOND: I think you have stated both in your brief and in the discussion that the practice is that you relate the price of sugar beets to the price of sugar as quoted generally and that a further practice is that you relate the price of sugar beets to the price of cane sugar. Is that it?



MR. HETHERINGTON: The price of beet sugar to the price of can sugar, yes.

COMMISSIONER DRUMMOND: Would it be fair to say that the price of cane sugar is the thing which some how or other has to be determined before these other things can be worked out?

MR. HETHERINGTON: That is quite true. I would think we always follow the market. We do not lead it. We are not in a position to lead it. We cannot make a market price. That is inherent in the pricing system.

COMMISSIONER DRUMMOND: In 1949 your producer received 54.9 per cent and last year, 1957, he received 62 per cent. Could you state in a summary sort of way the real reasons for the increase in that percentage over that period?

MR. HETHERINGTON: Well, I think very possibly the principal reason is that as the company improved its efficiency and improved its volume it was in a better position to pay more to the grower. That is basically the key to the whole advance in price. Obviously they had to rise up to a level and stabilize at some point. Whether that has been achieved or not as yet, we don't know. The growers probably have other ideas.

COMMISSIONER DRUMMOND: [Speaking of your volume, how many days per year is your plant capable of operating?

MR. HETHERINGTON: Processing normally is carried out over a period of three months or one hundred days. The rest of the year, of course, is taken up in



maintenance, shipping, packaging and so forth.

COMMISSIONER DRUMMOND: Has the actual processing period lengthened significantly?

MR. HETHERINGTON: No, it has not lengthened significantly. We run pretty well on a maximum for our climate now, at 100 days. It has gone, I believe, to 118 days but the losses in the very severe weather practically do not make it worth operating the plant during these very severe periods of freezing weather.

COMMISSIONER DRUMMOND: On the sale of your processed products, I think you mentioned roughly half was sold in 100-pound bags?

MR. HETHERINGTON: That is right.

COMMISSIONER DRUMMOND: And the other half in smaller packages?

MR. HETHERINGTON: Yes.

COMMISSIONER DRUMMOND: To what sort of buyers do you sell, all sorts?

MR. HETHERINGTON: Yes, we sell to wholesalers, chain stores, manufacturers, pretty well the whole gamut of sugar buyers.

COMMISSIONER FRUMMOND: Would most of these sales be on a direct basis? What sort of sales force have you got yourselves?

MR. HETHERINGTON: Well, we have a sales manager and a salesman, sales clerk, and we have a broker in Saskatchewan with various facilities.

COMMISSIONER DRUMMOND: Your total sales territory would be what?

MR. HETHERINGTON: Sales territory?



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COMMISSIONER DRUMMOND: Yes.

MR. HETHERINGTON: We sell into approximately half of eastern -- the eastern half of Saskatchewan, all over Manitoba and a little bit into Western Ontario.

COMMISSIONER DRUMMOND: Has there been any change whatever in the number of package sizes during the period the company has been operating?

MR. HETHERINGTON: Well, I am not too sure that there have been significant changes in the number of packages. I think one thing that since 1949, as the company has increased its business, it has got more into the packaging business because it is selling a larger volume directly to the householder. It is possible this percentage of volume was higher to the manufacturer in 1949 than it is now -- the percentage to total volume -- so that no doubt means more packaging.

COMMISSIONER DRUMMOND: This would be five-pound packages and ten-pound packages?

MR. HETHERINGTON: Twos, fives, tens, twenty-fives, one hundreds and bigger. That is pretty well the gamut of fine granulated sugar.

COMMISSIONER DRUMMOND: So that there has been an increase in the actual variety of sizes of packages?

MR. HETHERINGTON: Well, I wouldn't say. I don't know offhand, Mr. Drummond, but I would say there has been no significant number. Presumably -- I don't know. I wasn't there in 1949, unfortunately, but I would think in 1949 we would get twos, fives and tens at least so they are a demanded package.



COMMISSIONER DRUMMOND: Yes, I would have thought the fives and tens would have been here from the start. I wondered if that period has seen any change significantly since.

MR. HETHERINGTON: No, I think the proportion of fives and tens that we make up have increased.

COMMISSIONER DRUMMOND: Suppose you have to make up two and threes or something else: what causes you to make that decision? Is it a request coming from your buyer?

MR. HETHERINGTON: Yes. The wholesalers, of course, let us know very sharply if we cannot supply a package as do the chain stores. It is public demand, I would say.

COMMISSIONER DRUMMOND: This is a commodity which is entirely pre-packaged before it leaves you anyhow?

MR. HETHERINGTON: Yes. You have to have some container for it. I think actually that the packaging is probably cheaper done by us than it would be if we were to ship it in bulk and package it by the grocer in graph paper bags. The losses in handling would be very large. That was the experience in the past.

COMMISSIONER DRUMMOND: In your last paragraph on page 6 you say:

"Sugar is selling at a lower price today, lower than that which was in effect ten years ago."

What is the basic reason for that lower retail price?



Is that the supply situation in Cuba?

MR. HETHERINGTON: It is entirely the situation of the world market; the exact causes I do not know in detail, but nevertheless I would think offhand the potential production in the world or the potential for production in the world has probably a depressing effect, more depressing now than it was in 1949.

I think there was a short period there after the war in the world which came from the effect of the war. For instance, Indonesia and Java were previous to the war very large suppliers and they were pretty well knocked out, as was the Philippines so there was a tendency for a slightly higher level after the war for a steady period up until Korea, and afterwards at that time the potential for production has increased tremendously.

COMMISSIONER DRUMMOND: If the retail price has been trending downward but in spite of that the percentage of consumer dollars going to the producer has been rising, what is the real significance of that. It does not necessarily mean that the producer is actually getting more dollars per ton, even though he is getting a larger percentage of the consumer's dollar, does it?

MR. HETHERINGTON: I don't follow that, I am sorry.

COMMISSIONER DRUMMOND: The producer is today getting a larger percentage and has been getting a larger percentage of the consumer's dollar?



MR. HETHERINGTON: Yes.

COMMISSIONER DRUMMOND: But you also say in the first paragraph of page 6 that the consumer's dollar itself has been getting smaller. Is that right?

MR. HETHERINGTON: Consumer-s dollar -- do you mean ---

COMMISSIONER DRUMMOND: I should not say it that way. The consumer's price?

MR. HETHERINGTON: Yes.

COMMISSIONER DRUMMOND: The retail price has been getting lower?

MR. HETHERINGTON: Well, that is very difficult to answer for the simple reason that there are quite a number of technical factors. For instance, there is no such thing as a typical sugar crop and that is one of the things that had me buffaloed in trying to establish some figures here. We had to take a typical sugar crop and typical sugar purity and you have to make several other assumptions, but I think if you take a standard set of assumptions you would find that, assuming an identical crop each year, that the price per ton is definitely improving even if the price for sugar has been static.



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COMMISSIONER WALTON: Some seasons you are able to extract better quality or more from a sugar crop?

MR. HETHERINGTON: Yes, there is a wide variation, it could be as low as 235 pounds per ton, and as high as 285, and of course you may have variable features in there.

COMMISSIONER DRUMMOND: There is one other question, this is a non-perishable crop once it is refined?

MR. HEATHERINGTON: In general that is true.

COMMISSIONER DRUMMOND: Do you have to carry very much over from year to year, or do you manage to unload everything?

MR. HETHERINGTON: Well, we try to contract enough acreage to give us on an average crop basis the production that we consider we require for our market plus 10 per cent which will take care of either a carry over in the following year, or take over some of the items of nature. We can double that 10 per cent, and carry it over. We have no control over it, of course.

COMMISSIONER WALTON: You do not import any cane sugar yourself to carry on the manufacturing?

MR. HETHERINGTON: No, it was attempted one year in Manitoba, but technically the plants are quite different in many respects, and it was quite a financial flop. They had quite some difficulty in disposing of the low grade refinery,



they could not turn out an acceptable grade table sugar with the equipment they had.

THE CHAIRMAN: You have established that what we might call the processor's spread has decreased and you suggested the two factors being responsible for this, one Dr. Drummond has pointed out, and you also referred to increased efficiency. Have there been major changes in the techniques in sugar processing in the last few years?

MR. HEATHERINGTON: I do not think there has been anything that has been what you call major in the line of techniques. However, there are a lot of small things that can be done to improve the efficiency, for instance, labour saving devices are one of the important ones, and materials, and there are a number of smaller ones which will improve the extraction of sugar from the beets. Actually in my experience since 1955 I consider that the average figure of 253 pounds of sugar that we used in setting up this table is very conservative. We would consider now we can extract 260 or 262 pounds from beets of that quality, and in actual fact it has worked out that since 1955 it is considerably more than the amount shown on that table. The efficiency is largely technique efficiency, of course, in the extraction of sugar from the beets, and I think that has improved considerably since 1949.

THE CHAIRMAN: You have referred to the



pricing procedures, the fact of the price at which you sell in Montreal or Vancouver, plus freight less 20 cents?

MR. HETHERINGTON: That is right.

THE CHAIRMAN: Have you established a commercial area in Manitoba, Western Ontario and about half of Saskatchewan?

MR. HETHERINGTON: Yes.

THE CHAIRMAN: Is there any cane sugar sold in this area?

MR. HEHTERINGTON: Yes, there is a certain amount of cane sugar sold now.



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THE CHAIRMAN: I think I had better repeat my lead in to the last question I was asking of you, referring to the pricing procedures, and your statement that your price is Montreal or Vancouver plus freight less this 20 cents, and I then asked the question, is there any cane sugar sold in your market area which extends from sometimes in Western Ontario to about the middle of Saskatchewan, and you said there was?

MR. HETHERINGTON: Yes.

THE CHAIRMAN: Would you carry on?

MR. HETHERINGTON: First of all, approximately 12 per cent of the total sugar requirements are cane sugar products. There are certain by-products: brown sugar, yellow sugar, syrup, and so on, which are not products of the beet sugar industry. So, basically, 12½ per cent goes to the cane sugar industry to start with, and in addition to that there are a certain number of people who hold out for cane sugar. There is one other type of sugar that our industry is not warranted in going into, and that is cube sugar. They are a high cost product and very low volume, which does not justify too many companies going into it. Certainly, it would not be profitable for us to do it. But, aside from that, there is a certain amount goes into some manufacturers, and we are fighting it all the time. Our sales effort is constantly directed to getting more of the sugar market. However, we have made it the policy in our company to supply a complete sugar service, and we even have had to buy some cane sugar to supply a few customers when they



insist on cane sugar. The reason for that, of course, is that a potential customer may want a limited amount of cane sugar, but to make up a carload, or ten thousand pounds, we would give him the preference, or whatever it may be, of the cane sugar and make up the balance with beet sugar. It is still increasing our beet sugar volume.

THE CHAIRMAN: Is it required that the package indicate whether it is cane sugar or beet sugar?

MR. HETHERINGTON: I don't think under the law there is any requirement to say so, and it is my experience, or my observation, that the beet sugar people just put "Pure Sugar", and the cane sugar people put "Pure Cane Sugar".

THE CHAIRMAN: Is it a fair deduction from what you have said that the buyer of sugar, let us say the retail outlet, does, in fact, buy his beet sugar at 20 cents less than he pays for his granulated cane sugar?

MR. HETHERINGTON: Well, of course, we can't give you anything too authoritative, but by my own personal observation I would say that in general the wholesalers can pass the 20 cents on to their retailers, and from there on it is up to them whether they price it at the same price as cane or lower. There are examples of both.

COMMISSIONER DRUMMOND: This preference for cane sugar -- the preference of some people for cane rather than beet: would you call it a prejudice?

MR. HETHERINGTON: Yes, I would consider it

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an unwarranted prejudice.

COMMISSIONER DRUMMOND: Is it gradually disappearing?

MR. HETHERINGTON: It is, very much so. Possibly one of the biggest incentives was the war when people had no choice and distribution was fixed by the Government, and people found beet sugar did the job for them.

COMMISSIONER DRUMMOND: Is it possible that in some parts of the country there are consumers who have a definite preference for beet sugar over the cane sugar?

MR. HETHERINGTON: It actually does happen. It particularly happens with new Canadians -- Canadians from the middle of Europe who have never seen anything but beet sugar in their lives, and they automatically, when they think of sugar, think of it from beets.

COMMISSIONER DRUMMOND: This contract you have with the producers, you have stated, I think, earlier that you limit the acreage they can put into beets: is that the only limit on production -- the amount per acre?

MR. HETHERINGTON: No, the amount per acre is pretty well up to the ability of the farmer and nature. We work on the basis of averages, and knowing something of the agricultural ability of each farmer to arrive at an estimated gross production.

COMMISSIONER DRUMMOND: If the yield per acre showed a pronounced tendency to rise as time went on, would that automatically result in a reduction in



the number of acres you would permit in the contract?

MR. HETHERINGTON: There is the counter-balancing feature of the increase in market, and our production has increased very considerably. I think it is almost a 50 per cent increase since 1954. So, our acreage has tended to expand. I think it is possible the growers have tended to become more efficient growers.

COMMISSIONER DRUMMOND: Would you say your plant itself is operating roughly at capacity now?

MR. HETHERINGTON: Yes, it is. It is not at 100 per cent, but it is getting very close to it, where, in the visible future, we would have to consider major capital investments, possibly, for expansion. That is some time away yet, but it will come, I am sure.

COMMISSIONER DRUMMOND: With the gradual increase in the percentage of capacity -- in other words, increase in your volume, has it had a substantial effect on reducing your per unit cost?

MR. HETHERINGTON: I would say that, as a very general statement, the improvement in volume has helped us to keep up with other increases in costs -- materials and labour, and so on.

COMMISSIONER DRUMMOND: And to offset them?

MR. HETHERINGTON: Yes.

COMMISSIONER COUVRETTE: Are you producing all year long?

MR. HETHERINGTON: No, our processing season



is approximately three months.

THE CHAIRMAN: That has probably to do with the storage of beets?

MR. HETHERINGTON: Yes. If you have to carry your beets too long, they will deteriorate in storage; and, of course, if they are frozen stiff in the middle of January they become very difficult to process, and it slows your capacity down to a level where it is no longer economical to continue.

COMMISSIONER COUVRETTE: What do you mean by full capacity production?

MR. HETHERINGTON: We have had to break our maximum capacity level on the basis of a 100-day operation, which we think is the maximum operation that you can operate successfully.

THE CHAIRMAN: In the last ten years or so there has been a considerable change in the structure of the retail distribution activities, particularly the growth of the supermarket chain stores: in what ways have you had to adjust your own functions to meet this change?

MR. HETHERINGTON: I think possibly the big feature is the position of the retail man in the trade. We have had to improve our advertising -- increase our advertising. It is not arriving at any significant figure as a cost. I believe we have spent approximately \$25,000 last year on advertising. However, it is very possible that there will be a tendency to try and increase the demand for your particular product as a competitive feature. I don't think it



2 has any significant effect on the total consumption of sugar. It is very stable, historically, but our efforts, of course, are strictly competitive to sell more of our sugar rather than, say, some eastern cane sugars, which is our major competition.

THE CHAIRMAN: On this advertising, do you mean that previously -- did you sell to the wholesalers and the wholesaler then distribute to the retailer, and did they do the advertising, and now you have to do it?

MR. HETHERINGTON: No, I think the point was that previously the wholesalers had men who went around to the retail trade, and if we pushed it through our own salesmen to the wholesaler, that they, in turn, would have to push our product with the retailer, and they would do a certain amount of over-the-counter advertising, pushing the local product in preference to the imported products, or the products from another province.

THE CHAIRMAN: Do you pay advertising allowances to any of the retail outlets?

MR. HETHERINGTON: A very small amount. We do a certain amount of that on the basis that they actually do a certain amount of advertising, for which evidence and authority is presented. I think last year, as I remember the figure, I believe it is \$683 -- as I recall; it was a very small amount.

THE CHAIRMAN: What about quantity allowances: is this becoming a more significant factor?

MR. HETHERINGTON: No, we have no quantity allowances.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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THE CHAIRMAN: Thank you very much indeed;
we have appreciated this submission.



Submission of
CANADIAN SUGAR FACTORIES LIMITED

Appearances:

Mr. Ian Angus

Assistant General
Manager

THE CHAIRMAN: The next brief is on behalf of the Canadian Sugar Factories Limited, which will be presented by Mr. Ian Angus, the assistant general manager. Will you just proceed, Mr. Angus, please?

MR. ANGUS: Mr. Chairman, and members of the Royal Commission on Price Spreads. I would like to read the brief of the Canadian Sugar Factories Limited of Raymond, Alberta.

The primary producer, in this case the beet sugar grower of Western Canada operates under a unique growing contract with the Canadian Sugar Factories Limited. The primary producer shares with the Company in the net return for sugar. Over a period of the last 33 years a mutually agreeable annual contract has been negotiated, so that today the beet grower receives 63 per cent of the net return for sugar and the company 37 per cent. The net return for molasses is split equally. An advantageous supply and cost of beet by-products to the growers fosters



the large livestock industry. In fact the fertility of irrigated farms, cultural and rotational practices, cattle feeding industry, are all bound up with the beet contract as the focal point.

A careful study of all beet growing contracts in the North American continent, covering the period 1952-56 inclusive reveals that the Canadian Sugar Factories Limited paid more to the primary producer per ton of beets than any other processor in the United States or Canada.

Beet sugar produced in Canada during the war was welcomed by the Sugar Administration because submarine sinkings seriously affected Canada's raw cane sugar imports. From 1941 to 1947 inclusive Western Canadian beet sugar was requisitioned by the Administration to make up shortages in the Ontario market. The Canadian Sugar Factories Limited and the farmers of Southern Alberta, working together under a co-operative growing contract were able to increase production and meet this unprecedented demand in spite of the many problems involved.

At the same time the primary producer and processor, working together in partnership must compete pricewise in a highly competitive world price market, for the consumer's dollar. It is remarkable that the highly efficient Western Canadian beet sugar industry has been able to compete and continues to compete against the sugars grown in tropical areas where production of sugar



per acre is several times more than that in Canada and labour is extremely cheap. Beet sugar in Western Canada is always sold by the Company at the same or a lower price than cane sugar, so that the very existence of the industry generally results in cheaper sugar for the Canadian consumer.

In 1958 the Federal Government instituted a price support scheme for the growing of sugar beets. This program is of no assistance financially to Canadian Sugar Factories Limited, but all benefits accrue to the beet grower. In taking this action, the Federal Government undoubtedly recognized that the Company had over the years increased the benefits in its beet growing contract to the point where it could go no further.

In summary the Canadian Sugar Factories Limited beet growing contract is most favourable and generous. At the same time the Western Canadian consumer is receiving the finest quality sugar at competitive prices.

THE CHAIRMAN: I hope you will not be too disappointed if we do not have too many questions following our very interesting discussion with Mr. Hetherington. I am sure there will be some.

Dr. Drummond, would you start, please?

COMMISSIONER DRUMMOND: Perhaps first of all you could give us a little detail in regard to the number of plants you have out there now.

MR. ANGUS: Mr. Drummond, we have three plants in the irrigated district of Southern Alberta and



those plants receive beets from 40,000 acres of irrigated land that are all generally equal distant from the city of Lethbridge. The original factory is south of Lethbridge almost about to the American border, about 30 miles --

COMMISSIONER DRUMMOND: Raymond.

MR. ANGUS: Raymond and then if you swing off to Lethbridge, and go north-west for about the same distance our second factory, built in 1935 is in Burdette, and then coming back to Lethbridge and going down perhaps somewhat slightly to the east about 50 miles, our third factory came into production in 1950 at Taber.

COMMISSIONER DRUMMOND: 1950.

MR. ANGUS: Yes.

COMMISSIONER DRUMMOND: On what basis was it considered feasible to increase the number of plants? What were the factors that gave rise to this decision?

MR. ANGUS: The main factors were, first of all, an increase in the population, and as our original factory, which we had expanded as much as it could be expanded, came up to the maximum number of days, which in our case would be 115 days of an operating period, after that the sugar content and purity of the beets drops off very badly, and it is not an economical run after that period, and also we are confronted with -- even if we are in the Chinook belt - we are confronted with a period of freezing, and we get these periods --



well, we have in the past years -- we have had to dynamite beets out of the railroad cars and things like that, which is not a good way to handle a product like beets.

COMMISSIONER DRUMMOND: Hard on the beets.

MR. ANGUS: Very hard on the sugar, and product and so on. We get up to a maximum production, and then we were forced, due to pressure from the primary producers, I might say, to build a second factory which then reduced our running period down, which we watched over, and it has come up again to top market.

Then with further distribution, we have been forced to build a third, and now we had a down period, running under capacity that third factory. We hope with the growth of population that we foresee in our marketing areas that will allow us to bring the three factories production up to top run.

COMMISSIONER DRUMMOND: Each additional factory, to a degree, of course, is built in anticipation of the future.

MR. ANGUS: Correct, sir.

COMMISSIONER DRUMMOND: That would account for the 1950 factory, the third factory, being operated at less than capacity at the moment?

MR. ANGUS: That is correct, sir. In fact it has brought the three of them down to run them economically from a labour point of view. We have to run them for less time, which is a



difficulty at the present time.

COMMISSIONER DRUMMOND: To what extent is the actual marketing area broadened during the entire operation since you started operating?

MR. ANGUS: In bodies?

COMMISSIONER DRUMMOND: I am thinking of actual distances.

MR. ANGUS: Well, we have always sold in Alberta, Saskatchewan and the Manitoba market, and this is a difficult question for me to answer, except that sugar is not a luxury. It is now a necessity of life. It ~~is~~ the cheapest high energy food there is.

As a rule of thumb we assume that a person -- even those who think they are not eating sugar with their diets, take in, assuming different forms such as soft drinks or ice cream of whatever way it is. We assume as a rule of thumb that every person consumes 100 pounds of sugar a year. It depends a lot on whether they are in a manufacturing area. That is a sort of rule of thumb, meaning to say that every addition of population increases your production, and we, of course, have had a very big increase in population in Alberta, and that to us has been our saving point because over the years our costs have gone up like every other business. Our wages -- overall wages have increased by 60 per cent in this period. You have asked that information in the Commission's questionnaire. I would expect our union wages



have gone up 100 per cent, and material have gone up and the lifesaver to us has been the growth of Calgary and Edmonton and places of that type.

COMMISSIONER DRUMMOND: Do you not sell any in B.C.?

MR. ANGUS: No, we don't, sir.

COMMISSIONER DRUMMOND: Where do they get their supplies, is it cane?

MR. ANGUS: Cane.

COMMISSIONER DRUMMOND: Come by water?

MR. ANGUS: I would just like to give you a little explanation about that. With this recent strike in British Columbia we were prepared to ship into British Columbia, but you see, the price builds up from the coast, as you will clearly understand from the previous explanation, and if we were to try to competitively ship into Ontario, we cannot do it as far as the freight side is concerned, or the price reduced from our factories to B.C. or into Ontario, and in this case the administration bought our sugar, and they took it into Ontario during the war.

Without a price build-up we cannot sell in Vancouver, because the price is too low, although we were from a necessity point of view going to put some in there to keep them going during the strike a few weeks ago, but it was settled.

COMMISSIONER DRUMMOND: In connection with that particular beet experience and the wartime experience that you have mentioned here, you were



able to help out the government in that way, but you had considerable difficulty in doing it?

MR. ANGUS: Yes sir.

COMMISSIONER DRUMMOND: Why was that?

MR. ANGUS: In those days there was a lot of labour involved to increase that production. Methods had to be used to obtain labour. For instance, there was a prisoner of war camp in Lethbridge. We used, with the sanction of the government and I guess the sanction of the prisoners themselves a lot of Germans and enemies to our country to assist in that period to provide labour.

Of course, that picture has changed very much. For instance, this year we have just finished taking off our tonnage. We have had a fantastic period of growth during the last year, and I would say 97 per cent of our beets, which this year produced about 600,000 tons of beets, 97 per cent of them were harvested by machines.

COMMISSIONER DRUMMOND: This wartime labour, that was labour on the farms?

MR. ANGUS: Yes.

COMMISSIONER DRUMMOND: Not in the plants?

MR. ANGUS: Just on the farms.

COMMISSIONER DRUMMOND: Was there any bottle-neck in the plants at that time?

MR. ANGUS: There were lots of problems because we had to use inexperienced women which we do not use today.

COMMISSIONER DRUMMOND: I think you have



suggested that you substituted machines for men and women in the plants considerably?

MR. ANGUS: That is correct, sir.

COMMISSIONER DRUMMOND: What would your present number of employees be, roughly?

MR. ANGUS: During the operating period about 1,200 people.

COMMISSIONER DRUMMOND: During the rest of the year?

MR. ANGUS: I would think about 225 for the three factories.

COMMISSIONER DRUMMOND: Does the fact that you have three factories rather than one permit you to reduce any of your costs?

MR. ANGUS: I would expect overhead costs mainly and administration costs.

COMMISSIONER DRUMMOND: That would be a significant item on the total, would it not?

MR. ANGUS: I think it would be, sir.

THE CHAIRMAN: Is there any limitation in terms of the potential irrigated areas around your plants?

MR. ANGUS: No sir. You see, our crop is the major cash crop of the irrigated area. The farm has to grow beets because the beets are tied in in such a circle with his operation. As I said here that beet contract has things that you do not see, in the contract are not noticeable.

Under the annual contract we negotiate with the beet grower, through having beets he



buys -- although he shares in the net income on the molasses and pulp, he buys things for use of cattle feed at very much reduced prices. We have figures for last year which show that our industries subsidized the cattle feeding industry of southern Alberta to the tune last year of a quarter of a million dollars on price alone, nothing to do with the contract price.

The beet grower buys his molasses and pulp for feed-lot feeding. Many people will take the cattle in. So many of today's growers have little feed lots where they feed them in the freezing seasons.

Of course, our pulp is an outstanding food for cattle feeding, and for increasing weight at very low cost to them, so that is one of the benefits and naturally with these sort of feeds, it did not accrue in the contract.

We have a tremendous demand for people to grow beets. You asked specifically is there any limitation of acreage. We, this year, for the first time have gone further east from the Taber factory into the Bay Island and Burdette area of the irrigated area and into those areas where they had really no crop to grow, being a high cost and high income crop, and in either one of those areas, Burdette or Bay Island, we have just started the thing now, and you are able to support another beet sugar factory.

COMMISSIONER DRUMMOND: You mentioned when



you opened your third plant that the other two plants had been working at 115 days maximum. When you opened the third plant you had to cut them all back. Does that mean in the other districts you cut back your contracts?

MR. ANGUS: No, we did not cut down our contracts. We divided the beets more. We have points where they can go either way on the C.P.R. railroad, so we have actually increased our contracts.

COMMISSIONER DRUMMOND: Does the company itself undertake to grow any beets?

MR. ANGUS: We did at one time, sir many years ago. It was a dismal failure.

COMMISSIONER DRUMMOND: You are not anxious to get into that activity?

MR. ANGUS: No sir.

COMMISSIONER DRUMMOND: No intention of it?

MR. ANGUS: No sir.

COMMISSIONER DRUMMOND: On the second page you say "It is remarkable that the highly efficient Western Canadian beet sugar industry has been able to compete and continues to compete against the sugars grown in tropical areas where production of sugar per acre is several times more than that in Canada and labour is extremely cheap." : If the yield of cane sugar in those other areas is so much greater than your beet yield and if the labour is so much cheaper, what are the factors which make it possible for you to compete?



MR. ANGUS: The efficiency of our operation.

COMMISSIONER DRUMMOND: You are given some artificial protection, of course?

MR. ANGUS: Yes sir.

COMMISSIONER DRUMMOND: You are also given the natural protection of transportation?

MR. ANGUS: That is right, sir.

COMMISSIONER DRUMMOND: In addition to those types of protection you say that it is greater efficiency of actual operation in your plant?

MR. ANGUS: May I elaborate on this, please?

COMMISSIONER DRUMMOND: Yes, please do.

MR. ANGUS: My former position before coming to the beet sugar industry was as administrator of a large cane operation in the Dominican Republic where we employed 5,000 men, and we produced cane sugar for the world markets, and I would almost require a volume to tell you the differences in experience in operating the two, but I can give you some simple sort of basic comparison.

Specifically to these two: I had personal experience in the Dominican Republic just about five years ago, and the minimum wage per day was a \$1.50. That had come up a lot from when I first started. When I first started there it was about 40 cents for 12 hours, and it got down to about \$1.50 per day.

Our average wage rate, including fringe benefits of our permanent employees in the Canadian sugar factories is \$2.37 an hour. That is one



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factor.

Another factor is that we operated in Southern Alberta in a marginal area as far as weather is concerned. We have a very short growing period. We, this year, have taken off the highest average tonnage that we have ever taken off which was 15.2 tons per acre. Cane tonnages will run anywhere from 50 to 150 pounds per acre. Another point is that ocean freight is very cheap on sugar especially with modern bulk handling coming from the plantation.

For instance, in Fiji or Australia to Vancouver, or from Mauritius or Cuba or Jamacia to Montreal. It is very cheap down there.



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So, when I say we compete against an entirely different economy out there, and we feel through efficiency and through keeping our plants extremely modern and up-to-date, through very careful investment of capital for improvement, that we can compete with this situation even though we have the protection, as you say, of a tariff that dates back thirty-five years. 1923 is the tariff we operate on -- a very old and non-realistic tariff as far as we are concerned -- perhaps not as far as others are concerned.

COMMISSIONER DRUMMOND: You operate at a maximum of 115 days in Alberta: what would be the length of the operation period in these other areas you are speaking of?

MR. ANGUS: Well, I heard Mr. Hetherington say 110.

COMMISSIONER DRUMMOND: No; I was thinking of Cuba?

MR. ANGUS: Well, that is a very good point. I will give you an example of our own operations in the Dominican Republic, which is very much at the same latitude. As soon as the rain has stopped at the end of November, we start operating in mid-December, and then we run for about six months to the end of June until the rain shuts you down again. So, you have a much longer operating period.

COMMISSIONER DRUMMOND: What do these people whom you employ for 115 days do in the rest of the year?

MR. ANGUS: Most of them are farmers. Again,

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over a period of years they have become very efficient operators. They have become experienced, and have been there a long time. The same people come back: they have usually finished their crops, and they are delighted to come in for the cold months to ---

COMMISSIONER DRUMMOND: Supplement their income?

MR. ANGUS: Yes.

COMMISSIONER KIDD: On the question of the price-supporting scheme, you say that all benefits accrue to the beet grower. Supposing there were no price-support scheme, would this mean you would have had to pay higher prices to the beet growers to get the beets?

MR. ANGUS: It is our contention that we cannot pay them any more.

COMMISSIONER KIDD: But if there was no price-support programme would the price have had to go higher?

MR. ANGUS: That is a very difficult question for me to answer, because we were not consulted at all on the price-support scheme.

COMMISSIONER KIDD: I was wondering if you would have received enough beets for processing?

MR. ANGUS: We have absolutely no problem there. In fact, we have on our books at least a thousand farmers in the area who want to join.

COMMISSIONER KIDD: If there had been no price-support programme, I am wondering if you would have received enough beets for your processing?

MR. ANGUS: Well, we have no problem of



receiving beets,

COMMISSIONER KIDD: Because of the price-support programme?

MR. ANGUS: We get all the tonnage we want.

COMMISSIONER KIDD: Because of the price-support programme?

MR. ANGUS: Nothing do with the price support. The farmers in that area, to survive, have to grow beets, because there are not crops which can take the place of beets in that area. Also, the importance of a beet contract, which does not appear on the surface, is terrific, because it ties right in with the cattle feeding and rotation on the farm. The person with a contract -- that contract has to be moved each year round the farm. It is a highly fertilized crop with chemical fertilizers, and there is a tremendous residual effect with this application of the Consolidated Mining and Smelting fertilizer from Trail, and it also cleans up the farm. So, there are many benefits unseen which accrue to the primary producer with a contract, and that is why they all want one.

COMMISSIONER KIDD: If the price-support programme was removed, would you say you would still get sufficient beets?

MR. ANGUS: Yes.

COMMISSIONER KIDD: Well, would the price decline to the producer, then?

MR. ANGUS: Well, you see, the price has not been low enough this year to support beets. So, I don't know whether it will ever be. I made this personal

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study of all beet contracts on the North American Continent and our price has always been the most favourable price on the North American Continent. It has not slipped to a support level, and one would have to be a soothsayer to say whether it is going to slip to that level.

COMMISSIONER KIDD: On this question of the competition, I notice that the market has been divided up into various areas, Alberta through to part of Saskatchewan, and then the other company takes over, and then another company takes over, and the price remains the same across the geographic distances: is this because of the freight? Is freight the only factor in here?

MR. ANGUS: No.

COMMISSIONER KIDD: Does this limit the extent of the market -- just the freight?

MR. ANGUS: No. We compete against the price of cane sugar.

COMMISSIONER KIDD: There again, the factor is freight, isn't it?

MR. ANGUS: The factors that affect that are f.o.b. price, say, Cuba -- and that is true with other world market sugars -- on the coffee and sugar exchange in New York daily. The freight factor affects it if there is a change in freight by ship; if there is a change in tariff; if there is a change in your cane refiner's margin, or in distances -- all these five factors would affect our price, up or down.

COMMISSIONER KIDD: Well, the fact of the



matter is, there isn't much cane sugar comes in through British Columbia to the other western provinces?

MR. ANGUS: I think in our case, right off the bat, I think ours is about 14 per cent cane comes in in products we don't make, which would be specialties, and all beet sugar operations that I know of buy their specialties from a cane producer. On top of that we get back to this prejudice side: as has been said before, the war has helped a lot towards pushing over this prejudice against beat sugar and, of course, through improvements we are making a better product, so that we end up today with exactly the same product chemically. Cane and beet are both 99.9 per cent sucroset and so, we end up chemically, basically, with the same product.

COMMISSIONER KIDD: In the areas of the competition which you have defined, the price of sugar has been fairly constant over the past few years, hasn't it?

MR. ANGUS: No, sir. I will qualify that by saying, yes, generally low; but we have had at least two crises in there, with the Suez crisis and the Korean war -- two high fluctuating periods.

COMMISSIONER KIDD: Apart from that in a ten-year period I was under the impression there had been quite a degree of stability in the retail price of sugar?

MR. ANGUS: Except for those periods. The international agreement has the basis of controlling the price between, I think it is \$3.15 bottom and \$4 top. It used to be \$3.25 to \$4.35. This recent



one, a couple of weeks ago, that was negotiated has as its object to stabilize the industry both as to production and price. So, there is your level, and they are doing a fairly good job of it. So, there would be your range f.o.b. a mill of cane -- \$3.15 to \$4.

COMMISSIONER KIDD: Thinking in terms of this stability -- and I am thinking in terms of the geographical divisions of a market -- are there any other ways of competition except the price factor as between your companies and as between cane? It seems as though the price factor is fairly constant?

MR. ANGUS: Well, price is a very important one in such a low price volume product that that is undoubtedly one of our major problems. As we don't set the price of cane we follow, whether it is east or west--

COMMISSIONER KIDD: Well, you say a low-priced product: you also say you are highly efficient, so I assume your efficiencies offset any low price?

MR. ANGUS: Well, we think they have, in that as our costs have gone up we have made tremendous improvements and become more efficient to be able to maintain our position.

COMMISSIONER KIDD: Could you withstand the competition of cane if the protection of tariffs is removed?

MR. ANGUS: No. If tariffs were taken, or the freights taken, we would be out of business.

COMMISSIONER DRUMMOND: In view of the dominating role played by cane in price determination, and in view of the large percentage which cane sugars



have of the total of the Canadian market, what effect, if any, would it have on the retail price of sugar in Canada if sugar beets were not grown here at all?

MR. ANGUS: It would have a tremendous effect on the economy of Canada, because may I just give you a sort of simple but not exactly correct figure of our own operation -- what it means to the southern part of the country. First of all, if you were just buying cane sugar for our area -- Alberta, Saskatchewan and Manitoba -- you would be buying cane sugar out of Canada, and all that money would be going out to Fiji or Cuba or Mauritius, or wherever it went. Under our cooperative operation, which we really hasically are -- a private cooperative working with the Canadian farmers -- in this one instance of a small company like ours in Southern Alberta, it would mean that roughly \$9 million in payments to the farmer would go; \$2 million in freight to the railroads would go; that is \$11 million. One million in wages that we pay would go, which would be \$12 million. Supplies are bought locally -- large supplies of coal, natural gas, lime rock, fertilizer, and I think our fertilizer costs \$400,000 a year, but that is just a local industry. We roughly estimate the thing would build up to an annual \$15 million loss to the area. It is a cash crop. Under our contract we pay to the farmer -- for instance, just last week we paid the initial payment to the producers where we paid them 75 per cent of the estimated return we are going to get. There is a lot of estimating about it. But, on



November 5th, we paid our growers the final payment on last year. On November 6th we paid them the initial payment for beets delivered up to October 20th, and that is 75 per cent of the estimated for the coming year. As we go through the year we will pay them six more times. So, in our specific case we paid to the farmers of Southern Alberta on November 5th a final payment, which was about \$250,000, and on November 6th we paid them \$6 million, which was 600,000 tons, delivered up to October 20th, at 75 per cent of the estimated amount -- \$10 -- \$6 million. By that I am trying to show you what it means to the primary producer in that area.

COMMISSIONER DRUMMOND: I fully recognize the fact it makes a wide variety and possibly a large variety of contributions to the economy in general. What I was thinking of there was the actual effect on the retail price in view of the terrific world supply situation, and it would seem to me that all you would have to do was simply to allow a little of that supply to reach here and the effect on the retail price would be substantially the same?

MR. ANGUS: Well, if you just take us out of being now, our estimate is that the price would be higher generally.

THE CHAIRMAN: You are assuming that the tariff would continue?

MR. ANGUS: That is right.

THE CHAIRMAN: If you did not have the sugar beet industry, the tariff would not continue?

MR. ANGUS: That is correct. When I get



back to the payments per ton of beets, and when I say we pay more than our contract, I am comparing that with what everybody else pays on the North American Continent, but, in the United States the beet grower is subsidized \$2.50 a ton over and above what companies pay, and we pay beyond that.

COMMISSIONER DRUMMOND: Incidentally, your company operates in the United States, and the parent company ---

MR. ANGUS: Pardon?

COMMISSIONER DRUMMOND: Your company's headquarters really is in the United States?

MR. ANGUS: No, sir, we are a fully-owned subsidiary of the B.C. Sugar Refining Company in Vancouver.

COMMISSIONER WALTON: Do you have that study of the American-Canadian -- you mentioned you had a study of the best growing contracts on the North American Continent covering this period from 1952 to 1956?

MR. ANGUS: No, but I will be very pleased to submit it. I have it in my office, and if the Commissioners would like to have it, I would be very pleased to submit it.

THE CHAIRMAN: Thank you.

COMMISSIONER COUVRETTE: Beet sugar can be grown in any part of Canada, I believe?

MR. ANGUS: No, sir.

COMMISSIONER COUVRETTE: Well, it is being grown in Ontario?

MR. ANGUS: The southern part of Ontario.



COMMISSIONER COUVRETTE: In Quebec?

MR. ANGUS: Yes.

COMMISSIONER COUVRETTE: In Manitoba, Saskatchewan and Alberta?

MR. ANGUS: Yes, sir.

COMMISSIONER COUVRETTE: Could it be grown also -- well, that is enough: but, could it be grown in the Maritimes? The main thing is, could there be enough beet sugar grown in Canada to supply the Canadian demand, and eliminate cane sugar -- or, an important part of the demand?

MR. ANGUS: In the areas where it is grown and it is successful, they supply practically the whole market.

COMMISSIONER COUVRETTE: You would not be in a position to state if it would be possible?

MR. ANGUS: We have looked into the possibility of operating in British Columbia, and in our tests, agriculturally, we have done, we could not operate in British Columbia. We looked at the Fraser Valley and places like that, and it is not practical, agriculturally. Where we are, the soil types are suitable. We have a more or less guaranteed crop, through irrigation of the area, and we are also an area where freight protection means a great deal to us, and if we didn't have the freight and the tariff we would not be in business.

COMMISSIONER COUVRETTE: If we assume it would be possible to grow enough beet sugar to answer the Canadian demands, would the mass production of it lower the cost at the factory?



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MR. ANGUS: I doubt very much whether it would. There are so many factors that come into it, and when you start talking about limiting other people putting sugar into Canada, you immediately slap the Atlantic Coast fish industry in the face, and you run into all those sort of problems which I should probably not get into at the present time. But, I cannot see the Government telling the Cubans that they cannot ship into Canada.



COMMISSIONER COUVRETTE: I am not saying that the government would ever do it, but I can see on my own side of it a lot of farmers in the production of beet sugar that are not now. If it could be done I am just referring to the question it would mean that much more production, mass production in the refineries of your sugar, would it, or would it not?

MR. ANGUS: Well, with the weather conditions you can only run a beet sugar factory so long. There is no such thing as running a beet sugar factory -- we say we cannot run over 115 days. The weather would not let us, and the material product we handle reduces in sugar content and purity. It starts to smell and get rotten. You just cannot get a product to handle after 115 days.

I don't know whether you have seen anything of the beet sugar industry, but due to the weather we have to rip out 600,000 or 500,000 tons of beets between say the last week in September, and the beginning of October; pile them in piles all over the country because a week later it could quite easily become freezing, and they are lost and gone. We have to get them out and store them, and storage is such a terrific problem. We have got very tremendously involved techniques set up for handling beets in storage. We know a lot about it, but basically the beet sugar factory can only run 115 days.

COMMISSIONER COUVRETTE: Is your answer



then to the effect that it would not lower the cost at all? I think it was either in your brief or the previous one where it was said the Canadian beet sugar only meets with 20 per cent of the Canadian demand.

MR. ANGUS: That is right, but in those areas they sell it is close to 100 per cent.

COMMISSIONER COUVRETTE: Yes, all right. But if we are assuming they can be produced in a lot of areas, and probably the plants can be at least doubled or tripled in capacity -- that is my question -- would any plant doubled or tripled in capacity be able to produce a lower cost in your sugar?

MR. ANGUS: That is a very difficult question for me to answer. I don't know.

COMMISSIONER COUVRETTE: Is it possible or would it be possible?

MR. ANGUS: Would it be possible, for instance, in our own case to increase our production?

COMMISSIONER COUVRETTE: We are just assuming a situation there. If much more beet sugar was produced in Canada, enough to supply nearly all of the Canadian needs, could it lower prices and lower enough to supply the Canadian demand, and at a lower price that would eliminate the import and excise taxes and subsidies?

MR. ANGUS: Well, I will have to answer from our point of view. From our point of view the way we are constituted, we could not ship into



these areas to eliminate cane because we could not compete and pay the freight, so we could not do it.

The areas about which you speak -- I don't know all of the agricultural areas in Canada, but I know an awful lot of them, and the area would not support beets. You say we are growing beets in Quebec. I don't think they have been successful in Quebec agriculturally. That has been very questionable, and they were not too successful in southern Ontario. They are coming back, I understand. I would say it is very questionable whether it would be successful.

Where we are in southern Alberta, agriculturally for growing it is a marginal district weather-wise, but over the period of years we have brought our tonnage up through research, through seed development, through all these things in our research department, we have brought the average tonnage up from seven tons to 15.2 tons, so to answer this is very difficult.

COMMISSIONER DRUMMOND: Have you raised the sugar content?

MR. ANGUS: No sir, not necessarily. It is very hard to know. That is very important though. The sugar content is all important. I would say "yes, over that many years", but in the last 10 years I would say not necessarily. That is what we are always striving to do because we have developed our own seed. We used to bring our seed from Germany, but we were cut off during



the war. Now, we do our own research for that. We built in a frost resistant and those sort of things in Alberta. Then we propagate the plants on a little island in Vancouver, and from there we supply most of the seed in Canada.

COMMISSIONER DRUMMOND: Is the fact that the sugar content of Alberta beets is normally higher than that of the Ontario beets?

MR. ANGUS: I think this year they are higher than we are. There are so many variances that come in.

I understand from newspaper reports that they would run about 17 per cent, and we have been running about 16. We are still operating, of course.

It varies very much, according to the weather. For instance, last year we had a calamitous year weather-wise. We were receiving beets, if you could call them that -- it was hard to recognize them -- right up to the last day of operating, due to weather conditions. We only extracted about 243 pounds per ton of beets. Normally we would extract 280 pounds, but weather and weather conditions have such a bearing upon the agricultural operation.

THE CHAIRMAN: I think Mr. MacKichan has a question.

COMMISSIONER MacKICHAN: A number of my questions have been anticipated, but there is one that you may give me a little information on. You mentioned over the period of 33 years a



mutually agreeable annual contract has been negotiated. I take it that means that both the producer and the company were fairly happy over it.

MR. ANGUS: I think so.

COMMISSIONER MacKICHAN: Now, in the light of that when you speak of the unrealistic tariff, I expect you are speaking for the consumer.

MR. ANGUS: Pardon?

COMMISSIONER MacKICHAN: When you say both the company and the producer are happy, and then you speak about the tariff being unrealistic.

MR. ANGUS: No, we think from our point of view.

COMMISSIONER MacKICHAN: If the producer and the company are happy --

MR. ANGUS: Well, it would have to -- it is hard to say in the short time allowable to give you a complete picture of that contract. When I say "mutually agreeable" that is the contract where we sit down once a year with the representatives or the president of every district where we operate and a negotiating team of the company of about three and about 10 members from the beet growers.

In your request, you asked for copies of our contracts, but over the years --. We originally had what they called a 50-50 contract, where the sugar and by-products, molasses, was split 50-50.

Over the years that has been negotiated up from 50 per cent on the return of sugar to the present 63 per cent. That is \$7.



We still split the income or the net return of molasses, and since 1950 we have a new product which is dried beet pulp, which is a pulp that has 35 per cent molasses dried to it. It is made like shredded wheat. We ship that all over North America and the grower shares in that net return too.

COMMISSIONER WALTON: Is that on the 63 per cent?

MR. ANGUS: No, not on our by-products. We are one of the very few companies that share our by-products with the growers. We, in addition to sharing the by-products give the growers special prices for his own use. The raw material share is 63 per cent for the grower on sugar, 50 per cent on molasses, and 10 per cent on dried pulp, and then for this feeding --. This is from one factory, from the Taber factory, we sell it at a very very low price, it averages about \$1 a ton for the material, so there is little enough to share at such a low price. They are getting their fringe benefits right there in that low price. That has not changed in a great many years.

COMMISSIONER MacKICHAN: Another thing that interests me to indicate there was a little bit of happiness here is that the company had expanded its operation, and more farmers were anxious to get in.

MR. ANGUS: I think that is a fair statement. If you were to call the President of the



Beet Growers Association at Southern Alberta into this Commission, I think you would find that it is -- in spite of all these arguments and difficulties in establishing one of these annual contracts, I think you would find that they feel they had a very fair deal. I think our contract proves it when we say we paid more for a ton of beets than anybody else.

COMMISSIONER MacKICHAN: I am taking your word completely for that. I am drawing your attention to the fact that the tariff is unrealistic. That is what I was thinking of. I cannot just recall at the moment, but I think Mr. Howe sort of expressed himself on similar lines at one time. This is one time it is a slap in the face to the fishing industry in the Maritimes. I will agree with you. We feel that the tariff is unfair to the fish. Jamaica and Cuba are getting preference, and the Dominican Republic, which is a far better market for our fish, is not getting any. We are very much concerned about that. We feel we are getting slapped on both sides.

MR. ANGUS: Any time we have had discussions about these tariff problems with any government it has always come back to the fish problems from sugar problems, from sweetness to sweetness, I guess.

COMMISSIONER DRUMMOND: Is your company engaged in importing cane into B.C. itself?

MR. ANGUS: Yes sir.

COMMISSIONER DRUMMOND: Under what circumstances



would it be decided to undertake the production and sale of beet sugar in that area to substitute for cane?

MR. ANGUS: Well, I don't know, except I do know -- I have never worked for that company. I have always been on the outside subsidiaries. I have never actually worked at the head office of the B.C. Sugar Refinery Limited. I have always worked for the Havans Sugar Company on this cane operation, and then on the beet operation with the Canadian sugar factories, and all I know is what I am told by the agriculturists that are associated with us in our company. I am told in Alberta, that in tests they have done in B.C., in the area available for it, it was not satisfactory to grow beets.

COMMISSIONER DRUMMOND: Apparently there is a continuing narrow border line between the two types of produce, cane and beets. Is that right?

MR. ANGUS: Well, they are very different in that our major costs of buying are our raw material on a share basis where the refinery buys a world market price and whether the price is up or whether it is down, the way I see it, it doesn't make an awful lot of difference to them. To us it does. When prices are low in our business there is a very low profit, as you will see from our statement.

COMMISSIONER MacKICHAN: Who were the parties to these negotiations at this recent agreement, the selling countries and the buying countries?



MR. ANGUS: Yes sir, and I think the point that Mrs. Walton remarked about, the stabilization, that we will have further stabilization based on the fact that there has been an addition of two very important suppliers and one very important buyer in this most recent agreement. Brazil, which has been outside the agreement, with about 750,000 tons to market, has come into the agreement as also has Peru, and Chile has come in as a buying nation, just as Canada is, as a signator of this international agreement.

THE CHAIRMAN: That seems to be all, Mr. Angus. Thank you very much. You were very helpful to us.

MR. ANGUS: Thank you very much, sir.

THE CHAIRMAN: We will adjourn until 2 o'clock to then hear the brief of the Canada Packers.

--- The Commission adjourned at 12.15 to resume at 2 p.m.



--- The Commission resumed at 2 p.m.

Submission of
CANADA PACKERS LIMITED

Appearances:

Mr. W.F. McLean	President
Mr. A.J.E. Child	Vice President
Mr. W.W. Lasby	
Mr. L.R. Cameron	
Mr. L.A. Matthews	
Mr. V.N. Stock	
Mr. W.R. Carroll	
Mr. G.H. Dickson	

THE CHAIRMAN: The brief this afternoon is presented by Canada Packers Limited, and I understand it will be presented by Mr. McLean, the President. I see you have a number of your colleagues with you, would you introduce them to the Commission.

MR. McLEAN: Yes, Mr. Chairman.

Mr. Child, the Vice President; Mr. Lasby; Mr. Cameron; Mr. Matthews; Mr. Stock; Mr. Carroll and Mr. Dickson.

THE CHAIRMAN: Thank you, will you proceed with your brief?

MR. McLEAN: We are pleased to have the opportunity to present to the Royal Commission on



Price Spreads of Food Products this brief on the role of the meat packing industry in the distribution chain from the farmer to the consumer of meats.

Canada Packers' business deals with many food and non-food products. We have already supplied to the Commission figures relating to the whole of our business. The majority of these figures have been separated into two parts: That part dealing with products derived from Canadian livestock, and that part dealing with the remainder of our business.

For reasons of clarity and simplicity, we propose to deal in this brief only with our major meat products, i.e., products derived from cattle and from hogs. We shall, of course, be glad to supply to the Commission any additional information on any other section of our food business.

Products derived from cattle and from hogs represent the major tonnage of our food business. It is in this area that we are best informed and best able to discuss the question of price spreads from first-hand knowledge.

Our brief is limited to the major terms of reference of the Royal Commission. Particular attention has been paid to "The spread between the prices received by the producers of food products of agriculture and fisheries origin and the prices paid by the consumers therefor". We have reproduced the graph supplied by the



Royal Commission on Price Spreads of Food Products showing (on an index basis) the change in this spread since 1948. It is evident that this graph indicates that since 1951 the spread had widened considerably.

The meat packing industry is the link between the producer of livestock and the retailer. Its function is to purchase the live animals from farmers or marketing agencies, slaughter and process the animals into marketable products, and sell these products to retailers or on the wholesale market.

This brief deals only with the area in which we operate, - the area between the purchase of livestock from producers and the sale of product to the retailers or on the wholesale market. It is only in this area that we can speak with first-hand knowledge.

Products derived from cattle: From the standpoint of sales volume, beef is the largest single food item handled by Canada Packers. The beef business is basically a simple operation, consisting of the purchase and slaughter of animals which are then sold in the form of carcasses, beef cuts, and by-products. In most cases the by-products must be further processed before they are in a marketable form.

We have reproduced Chart No. 2 showing an index of wholesale beef carcass prices and an index of live cattle prices since 1948. The



prices from which these indices have been calculated were obtained from the Dominion Bureau of Statistics publication entitled "Livestock and Animal Products Statistics".

The red line is an index (basis 1949 = 100) of average yearly beef carcass prices of commercial steers at Toronto. This represents the prices received by meat packers for the beef they sell. The blue line is an index (basis 1949 = 100) of average yearly live prices of medium steers up to 1,000 pounds at Toronto. This represents the prices paid for the live animals by the meat packer. The two series have been chosen because live medium steers, on average, grade out as commercial steer carcasses.

When these two price series are placed on a 1949 index basis (as has been done in the chart) we can determine the change that has occurred in the price spread between the price paid to producers for medium steers and the wholesale price of commercial steer carcasses. Live and wholesale beef prices rose sharply from 1948 to 1951, when the trend reversed and prices fell sharply through 1952 and 1953. Since then, prices have continued to fall slowly till 1957. In the past few months the trend has reversed and prices are again rising. The D.B.S. figures in Chart No. 2 indicate that, based on 1949, the index of prices paid to producers for cattle has remained above the index of prices obtained for



wholesale beef, except for 1955.

In the packinghouse, live cattle are processed into beef and by-products, such as hides, tallow, meat scrap for animal foods, casings, etcetera. Thus, to complete the picture we must examine the trend in by-product values that has occurred during the same years.

Since 1948, the value of by-products has declined. Our accounting records show that the net value of by-product credits has decreased from approximately \$28 per animal in 1948 to approximately \$15 in 1957.

Quite possibly this is an area where the meat packing industry has lacked imagination in developing new and more profitable markets for by-products, e.g., through the chemical and pharmaceutical industries. This is a subject that is now receiving considerable attention from our research department.

The chart just exhibited indicates that the prices paid to producers for cattle and the prices received by the packinghouse for the products derived from cattle have followed the same trend since 1949 and that the spread between them has not substantially changed.

Let us turn now to Canada Packers' figures rather than industry figures derived from D.B.S. reports. We have reproduced chart No. 3, showing in index form (basis fiscal 1949 = 100), proceeds from the sale of beef and by-products and the payments



for cattle at Canada Packers' Toronto plant. The Toronto plant beef operation is a substantial one and is representative of our beef business. The red line is an index (basis fiscal 1949 = 100) of the average yearly per animal proceeds from the sale of beef and by-products and takes account of the net proceeds we receive f.o.b. our plant. Where the product has been sold on a delivered basis, the selling price has been reduced by the freight involved.

The blue line is an index (basis fiscal 1949 = 100) of the average yearly payments per animal for cattle and is our cost of animals delivered to the packinghouse.

Mr. Chairman, may I point out in the chart we produced here, we have the first seven accounting periods for the current year, that takes us up to the middle of October. When these charts were prepared for the brief, we did not have that information, but this has been brought up to date for this year.

Transportation charges have been excluded from our frame of reference. We have done this as it was the only way that we could get prices for all cattle and all beef products on a uniform basis. Nevertheless, transportation charges are an important factor in the price structure.

The two indices on the chart have been developed directly from Toronto plant accounting records. Our accounting year-end is on the last Wednesday of March of each year. For a rough



comparison, our fiscal years approximately correspond to the previous calendar year and the charts have been plotted in this way. (Thus, fiscal 1949 has been plotted above 1948, etcetera).

The two indices have been calculated on the basis of fiscal 1949 = 100 and the difference between the two lines represents the change that has occurred since then in the price spread between live and wholesale price of the products derived from cattle.

The chart indicates that the spread has widened somewhat since 1949.

Chart No. 3 is comparable with chart No. 2 which was developed from D.B.S. figures. The lines in the two charts follow very nearly the same pattern year by year. The main point of difference between the two charts is that the Canada Packers accounting figures show a slight increase in the price spread, whereas the D.B.S. figures show, if anything, a slight decrease in the price spread. This apparent discrepancy is not great and is within the limits of error of the process we have followed in preparing the first chart. For example, we have assumed that medium steers up to 1,000 pounds on average grade out as commercial carcasses. This assumption, although very close to the truth, is certainly in error to some extent. Also, the figures published for the live price of medium steers and the wholesale price of commercial beef carcasses are to some



extent approximate figures.

It is apparent from these two independent sets of statistics that the "spread" between the price received by the producers for cattle and the wholesale price of the products derived from cattle has increased only moderately since 1949.

Products derived from hogs: Pork is sold at the wholesale level either as fresh pork cuts or as a variety of processed products, such as, smoked hams, sliced bacon, cooked hams, (both sliced and in the piece) various other cooked products and canned products. The degree of processing in these products varies greatly. On the average, the various forms of pork meat offered for sale are much more highly processed than is the case for beef. Consequently, the value added in manufacture in the case of pork is a good deal greater than in the case of beef.

We have reproduced chart No. 4, which shows (in index form) wholesale pork prices and live hog prices from the Dominion Bureau of Statistics.

The red line is an index (basis 1949 = 100) of wholesale pork prices for Canada and is an unpublished figure series from the Prices and Price Index section of D.B.S. Prior to 1955, this wholesale pork price index was based on wholesale hog carcass prices. This was not a reliable index of wholesale prices for all of the forms of pork sold.



Since 1955, a new index developed by D.B.S. (working with the Meat Packers Council) has been used. This index, based on reported wholesale prices from processors, more nearly represents the weighted average of the wholesale prices obtained for all of the forms in which pork is sold.

The blue line is an index of weighted average prices (dressed basis) of slaughter hogs sold at public stockyards in Canada. This price series has been taken from the D.B.S. publication, "Livestock and Animal Products Statistics".

Both of these indices have been converted to a basis of 1949 = 100 and are plotted on chart No. 4.

Both indices follow approximately the same pattern year by year. The difference between the two lines represents the change that has occurred in the price spread between the price of live hogs and the wholesale price of pork products. Since 1949 this spread has increased slightly.

Let us now turn to Canada Packers' figures rather than industry figures derived from D.B.S. reports. The data for pork is harder to isolate from our accounting records than in the case of beef. Because our Toronto plant buys a large quantity of frozen pork cuts for further processing, we were not able to develop figures for our Toronto operation which would genuinely represent the price spread between the cost of live hogs and the return for



pork products. For this reason, we have selected the pork operation of our Winnipeg plant as the basis of the figures, and we believe that these figures are representative of our over-all pork business.

We have reproduced chart No. 5, which shows indices of the yearly average proceeds per hog from the sale of pork and by-products and the yearly average payments for hogs at Canada Packers' Winnipeg plant.

May I point out again on this chart that a large reproduction has been brought up to date for approximately the first six months of this year.

The figures used to construct the graph have been taken from our accounting records and cover the period fiscal 1950 to fiscal 1958 (i.e., approximately calendar 1949 to calendar 1957).

The red line represents an index (basis 1949 = 100) of our annual proceeds from the sale of pork products and by-products and represents the net proceeds we received f.o.b. our plant.

The blue line is an index of the yearly payments for hogs and represents our cost of hogs delivered to the packinghouse.

Again, as in the case of beef, all values used are f.o.b. our plant. We have plotted the fiscal year figures opposite the calendar year that they most closely approximate.



There are some obvious differences in trend between this chart and chart No. 4, which was based on D.B.S. figures.

For example, the chart based on D.B.S. figures shows a decrease in the price of hogs for 1950, while the Canada Packers chart shows an increase. This difference is explained by the three-month difference between calendar years and our fiscal years. If we re-calculate our cost of hogs on a calendar year basis, the two trends agree almost exactly.

As far as change in the price spread is concerned, the two charts show approximately the same picture. There are differences, e.g., the Canada Packers chart shows a somewhat greater widening of the spread for the period concerned and the trend from year to year in change in spread does not agree exactly on the two charts. This apparent discrepancy is not great and we believe it is within the limits of error of all the figures concerned. For example, it has already been mentioned that the D.B.S. wholesale pork price figures are probably not entirely reliable a few years back. Also, the Canada Packers figures for pork were much harder to isolate from our accounting records than the figures for beef, and are probably not as accurate as the beef figures but, nevertheless, they are very close to the facts.

It appears, then, from charts numbers 4 and 5 that in the case of pork products the spread



between the price of hogs and the wholesale price of products derived from hogs has increased moderately over the period studied.

It appears from these charts that the spread between livestock prices and wholesale meat prices in the case of pork has increased more than in the case of beef, for the same period. This result is not unexpected. In the case of beef, the product at the wholesale level is sold in almost exactly the same form as it was in 1949. This is not true of pork products. Pork products are processed and packaged to a much greater extent now than they were in 1949. Also, a good many pork products, such as, hams and other smoked meats, are defatted and skinned to a greater extent now than they were in 1949.



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Some pork products, such as fresh pork cuts, have changed very little since 1949 and, indeed, this is illustrated by a comparison between 1949 and 1958 of our total expenses charged to fresh pork cuts. The ratio of these expenses is $\frac{1958}{1949} = 1.08$.

However, other pork products have changed a great deal since 1949. Our smoked meats, including sliced bacon, are sold in a very different form now than they were in 1949, and a great deal more processing is involved.

For example, in 1949, most smoked hams were sold by us whole, bone-in, and skin-on. Today, only about one-quarter of our hams are sold whole. The rest are sold in the form of halves, quarters, steaks and slices.

All of these smaller pieces are packaged with some protective plastic film. Moreover, a good deal of fat and skin, which used to be left on the whole ham, is removed in preparing these pieces. Similar differences are apparent in all of our other smoked meat products.

This change is reflected in our total expenses charged to these products. The ratio of these expenses, between 1958 and 1949 is:

$$\frac{1958}{1949} = 1.70.$$

During the period under consideration the unit cost of the items that go to make up our expenses have increased greatly.

The following are a few illustrations of this at Toronto plant:



	<u>% Increase</u> <u>1958</u> <u>1948</u>
Average hourly wage of production employees	84%
Average hourly earnings of clerical staff	82%
Average salaries of foreman, supervisors and technical staff	97%
Cost of corrugated shipping containers	38%
Fuel cost per ton	80%

In the case of both beef and pork, it has been mentioned that transportation charges are outside the frame of reference of all of the figures given so far. (That is, all payments for livestock and all proceeds from the sale of products have been shown on an f.o.b. plant basis.) However, transportation charges are, of course, involved both in moving livestock to the packing plant and moving products to the retailers. To illustrate the change in transportation charges for the period under review, the railway freight on similar shipments of our products and live animals has increased by a factor of 1.75.

In several of the briefs already presented to the Royal Commission the subject of pork product from 'A' grade and 'C' grade hogs has been raised. The fear has been expressed that meat packers buy 'C' grade hogs and produce 'A' grade product from them and, by this process, obtain an unusually large mark-up or profit. There appears to be a good deal of misunderstanding about this subject and we thought it was worth reviewing here.

It is perfectly true that we produce a con-

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siderable amount of top-quality product from 'C' grade hogs. It is also true that some 'C' grade hog types and weights produce cuts that must be down-graded because of untrimmable tissue fat and coarse meat texture.

However, the essential difference is the extra cost of producing first-class product from 'C' grade hogs. The main factor in this extra cost is a much larger amount of fat on 'C' grade hogs which must be trimmed off in order to produce top-quality saleable pork cuts. This fat, of course, is rendered and sold as lard, and the value of lard is much lower than the average value of the hog carcass.

We have reproduced a comparative cutting test on grade 'A' and grade 'C' hog carcasses. The test involved 70 hogs.

July 1958

"A" Carcasses

	141-170 lb. Hot Dr. Wt.	Price Cents per lb.	Value Dollars		125-185 lb % Hot Dr. Wt.	Price Cents per lb.	Value Dollars
Hams, Fully skinned & defatted to $\frac{1}{4}$ "	16.06	56.4	\$ 9.06		13.83	56.4	\$ 7.80
Loins - defatted $\frac{1}{4}$ "	14.69	48.4	7.11		11.97	48.4	5.79
Bellies - Commercial Trim	13.06	40.4	5.28		13.28	37.4	4.97
Butts - defatted to $\frac{1}{4}$ "	7.79	43.4	3.38		6.75	43.4	2.93
Picnics - Hockless, fully skinned and defatted to $\frac{1}{4}$ "	6.92	41.4	2.86		5.65	41.4	2.34
Total Primal Pork Cuts	58.52		27.69		51.48		23.83
Heads (Tongue out)	6.43	6.5	.42		6.31	6.5	.41
Tongues Rough (untrimmed)	.30	20.0	.06		.31	20.0	.06
Leaf Lard	2.12	9.6	.20		2.74	9.6	.26
Kidneys	.37	15.0	.06		.40	15.0	.06
Livers	1.98	17.0	.34		1.54	17.0	.26
Skirt Meat	.15	23.0	.03		.15	23.0	.03
80% Lean Trimmings	1.23	42.0	.52		.97	42.0	.41
60% Lean Trimmings	.32	23.0	.07		.35	23.0	.08
Neck Bones	1.29	4.0	.05		1.31	4.0	.05
Fin Bones	.16	5.0	.01		.16	5.0	.01
Riblets	.35	13.0	.05		.45	13.0	.06
Front Feet	1.04	2.0	.02		.95	2.0	.02
Hind Feet	1.36	1.5	.02		1.12	1.5	.02
Tails	.30	15.0	.05		.22	15.0	.03
Side Ribs	2.82	44.0	1.24		2.50	44.0	1.10
Back Fat (rind off)	5.24	9.0	.47		9.22	9.0	.83
Neck Fat (skinned)	1.91	21.0	.40		1.87	21.0	.39
Trimming Fat (rind off)	6.46	9.5	.61		10.35	9.5	.98
Kinds	4.45	4.0	.18		4.48	4.0	.18
Scrap and Waste	.20	1.5	.01		.22	1.5	.01
Cutting and Cooler Shrink	3.00		-		2.90		-
Total Sundries	41.48		4.81		48.52		5.25
Total	100.0		32.50		100.0		29.06

"C" Carcasses

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO



In each case, the first column shows the percentage of the carcass weight which is obtained in each of the five primal cuts, trimmed to standard specification, and the percentage of the carcass weight which is obtained in each of the remaining sundry products. The second column shows the net value per pound of each item at the time of the test and the third column shows the multiplication of the first two columns. The total of the third column, therefore, in each case represents the net value of all of the product obtained from the carcass.

The test shows the cost of eliminating excessive trimmable fat. It does not show (except in the case of bellies) the cost of down-grading the primal cuts from 'C' grade hogs because of their inherently lower quality.

You will note that except for bellies, the same net value per pound for each cut and sundry has been used for both 'A' and 'C' grade hogs. The reason for the difference in the bellies is that, more so than in other cuts, the fat and lean are distributed in layers and it is impossible to trim out the excess fat. Because of this, the bellies from 'C' grade hogs produce a much smaller percentage of top-quality bacon.

The average total net value of the 'A' grade hog carcasses is \$32.50 per 100 pounds, and the average total net value of the 'C' grade carcasses is \$29.08 per 100 pounds. The difference in value is \$3.42.

The meat packer pays a premium for 'A' grade hogs over 'C' grade. This premium was established by



discussions between the packing industry, the Federal Government, and various hog producers' associations. As demonstrated by the cutting test, the total return to the packer of the hogs on test per 100 pounds is:

'A' grade hogs - \$32.50

'C' grade hogs - \$29.08.

To the meat packer the 'C' grade hogs on test are worth \$3.42 per 100 pounds less than the 'A' grade hogs, compared to the agreed differential of \$3.00 per 100 pounds.

The fact is that the meat packer makes a lower margin on 'C' grade hogs and, if given the choice, would prefer to buy only 'A' grade hogs.

The price spread which arises in the packing-house between the money paid for live animals and the proceeds received from the sale of the resulting products is, of course, the sum of the total expenses and the profit of the meat packer.

A good deal has been published in the past about the profit of meat packers. It is our impression that it is generally accepted that the meat packer's profit is a modest one. Canada Packers' profit on all products derived from livestock has averaged over the past ten years 0.64 per cent of dollar sales, which is equivalent to approximately 1/5 cent per pound of sales weight.

However, it has been suggested that although this profit appears modest as a percentage of dollar sales, (or in fractions of a cent per pound) that the return on investment in the meat packing business is unusually large. It is very difficult



for us to make any exact calculation of the return on investment in the meat business. The reason for this is that our physical facilities are thoroughly interwoven between the meat business and other businesses in which we participate. To divide the value of our physical assets between the meat business and other businesses is very difficult and the decisions become quite arbitrary.

However, even with this difficulty, it is clear to us that our return on investment in the meat business is modest and certainly less than our average return on investment for the whole company.

I believe that the only accurate way available to us to illustrate this is by a theoretical example. We have asked our engineers to prepare an estimate of the present cost of erecting a plant with the capacity to slaughter and process 1,000 head of cattle per week. This estimate includes the facilities required to process the by-products and the meat to saleable wholesale form.

A conservative estimate of the cost of these facilities is \$750,000.00.

As well as this, working capital is required. We have estimated that the minimum working capital required for this business would be \$150,000.00.

If this plant operated at capacity every week of the year it would process 52,000 head of cattle per year. An optimistic estimate of profit would be \$1.50 per head. This is a good deal more than our average profit in the beef business for the past ten years.



Thus, operating at capacity with this profit per head, this plant would produce \$78,000.00 per year profit before income tax, or approximately \$40,000.00 per year after income tax. This represents 4.5 per cent return on investment after tax.

All of these estimated figures are on the optimistic side. Admittedly, the value of fixed assets is taken at today's replacement cost and this, of course, is higher than the normal current value of fixed assets would be in any company which has been operating for some time. However, fixed assets wear out and become obsolete, and because of increasing construction and equipment costs, the depreciation allowed is almost never sufficient to maintain and replace them.

Suppose that the average value of fixed assets in an operating company is only one-half of their replacement value. In the example above, this would result in a 7.7 per cent return on investment, which is still a modest return.

Last year, the average return on investment of the 500 largest United States corporations, as reported in "Fortune" magazine, was 11.4 per cent.

Over the next 25 years the packinghouse industry will be called upon to expand and increase its facilities to probably double their present size. The return on investment should be sufficiently great to provide the money necessary for this, or if outside capital must be raised, the forecasted return on investment must be great enough to attract this capital.

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In the meat business, it is our opinion that there is a serious question whether the return on investment is presently large enough to justify the management decisions to participate in this expansion which lies ahead.

By far the most important part of the spread between payments for livestock and proceeds received for the products derived from livestock is the meat packer's expenses in salaries, wages, materials, packages, etc. In one of the previous briefs presented to this Commission, the question was raised that even though the meat packer's profit is modest, are his expenses reasonable, i.e., is he operating efficiently.

This is a perfectly proper and pertinent question. The injustice to the consumer and the producer would be just as great if excessive price spread in the industry resulted from inefficient operation as if it resulted from excessive profit.

The principal safeguard against excessive expenses in the packing industry is the intensely competitive nature of the business. Any packing company which allows its expenses to get very far out of line will not survive long. This is so because of the energetic competition and because the ratio of profit to total expenses is unusually small. This means, of course, that a small percentage change in expenses produces a large percentage change in profit.

A very large part of management's time and energy is spent on the efficiency of operation and the



control of expenses. Of course, a great deal remains to be done and, indeed, improvement of efficiency is a process which continues day by day. An exact measure of the increase in productivity is difficult to determine, but over the past ten years our records indicate that our productivity has increased by approximately 3 per cent per year.

We have no exact benchmark to compare the efficiency of our packinghouse operation with those in other countries. However, from observation and from some information that we have gathered from time to time, we believe that our operation is at least as efficient as any in the United States or Europe.

This does not mean, of course, that further improvement will not be attempted and achieved. Improvement of efficiency is a daily concern and, along with improvement of the quality of our products, is the principal concern of our management.



THE CHAIRMAN: Since the outset of this Commission's work, your firm has been very co-operative, and we appreciate the studies you have made and presented to us, and the return of our questionnaire. In previous hearings we received some evidence on the matter of hog marketing, and I understand this whole matter is under consideration by the Minister of the Province of Ontario, with discussions between the packers and producers. We will have some questions to ask you, but this is an area of questioning which we will avoid in view of the discussions which are going on.

MR. McLEAN: Yes.

COMMISSIONER DRUMMOND: In one or two places in the brief you mention transportation costs do not enter into your calculations. I want to get clear as to the exact meaning of that: Does that mean, for example, that if you sell some of your processed beef or pork in one of your western plants, which you ship east, and sell to some fairly large buyer, that that buyer pays the transportation costs?

MR. McLEAN: Not necessarily, sir. We sell in both ways, in different districts, and depending on the convenience of the customer. We sell some production delivered and some with delivery added. For the purposes of these figures, wherever it is sold delivered, we have deducted the transportation and brought it all back to f.o.b. plant basis. In the same sense, on the livestock, the transportation



is all in, and the livestock all out. The livestock are all on a delivered basis, so that these figures -- the blue line on the charts -- do not represent what the farmer got. It represents what the farmer got plus the transportation charge to our plant. The red line, however, represents the value of the product at our plant. We did this because it is the only uniform basis we could arrive at.

COMMISSIONER DRUMMOND: The reason I asked this is that if your product is sold on a delivered basis, that would mean the cost of transporting the article would be part of your costs?

MR. McLEAN: Yes.

COMMISSIONER DRUMMOND: Whereas if sold on the other basis, it would be part of the buyer's cost?

MR. McLEAN: Yes, that is right. For the purposes of these figures, there is no transportation in.

COMMISSIONER DRUMMOND: While I am speaking of transportation, it seems to me it is relevant to this whole inquiry: You operate plants all across Canada; would you agree that in very recent years there has been quite a pronounced expansion-- well, we all agree there has been a great expansion in the domestic demand; domestic population -- would you agree that a very large fraction of that expansion of domestic demand is located in the centre of Canada --



MR. McLEAN: Yes, Ontario and Quebec.

COMMISSIONER DRUMMOND: And B.C.?

MR. McLEAN: Yes.

COMMISSIONER DRUMMOND: Isn't it also a fact that during those same years most of the expansion in livestock production has taken place in the Prairie area?

MR. McLEAN: More than elsewhere, yes. I don't know whether most -- I haven't the figures with me -- but certainly more than elsewhere.

COMMISSIONER DRUMMOND: From this set of circumstances it would seem to me that during these years we must have had a constantly larger percentage of our total supply of meat that had to be transported long distances?

MR. McLEAN: That is right; the centre of gravity of production has moved West, and the centre of gravity of consumption has moved east.

COMMISSIONER DRUMMOND: So that the transportation cost due to the fact that the larger part of products had to be moved, certainly must have been going up quite apart from the rate of transportation?

MR. McLEAN: That is quite right. We have attempted a calculation on that, and I am sorry I haven't it with me, because I wasn't satisfied it was sufficiently accurate; but, I had intended to send it on to you to try to cover this transportation cost. It is an attempt to calculate the difference for hogs and cattle -- the average



transportation over the whole country -- the average value of transportation of pork and beef in 1949 and last year. It won't be accurate, but it may be right to plus or minus 20 per cent.

COMMISSIONER DRUMMOND: It seems to me there are two possible reasons for an increase during these years in the transporting cost of that cost: One thing is the freight rate, and the other is the change in the amount of products to be moved?

MR. McLEAN: That is quite right.

COMMISSIONER DRUMMOND: You state very definitely here that while there has been some increase in the spread both in respect of beef and pork products, that the increase is relatively greater in pork products, and you give most of the explanation for that: Would you care to add at all to what you say there?

MR. McLEAN: The specific products you have mentioned here are intended to serve only as examples. Fresh pork is sold very much the same as in 1949. However, virtually all smoked meats are sold in quite different forms than they were in 1949, and probably the principal influence in bringing that about is the growth in self-serving merchandising as opposed to service merchandising. The same remarks will apply to cooked meats, for example. For example, in 1949 -- I haven't got the percentages with me -- but in 1949 a very substantial percentage of our cooked



meat trade would be in the form of loaves which were sliced at the shop to suit the customers' requirements, and the major portion of that trade is now sliced in our plant and packaged in some way and then sold at the shop.

COMMISSIONER DRUMMOND: Might I ask in this connection, would it be fair to say that these changes in processing in respect of these smoked products were made at the request of your purchasers, or did you take the initiative in that respect?

MR. McLEAN: This is a very difficult thing to determine. I would say, that in the main, the consumer took the initiative, because there were many instances, for example, where self-service meat operations were run side by side with service operations, and I think -- not by any means entirely, but, in the main, the self-service has grown very rapidly. If you assume that the consumer liked the self-service meat operation, then the packaging and putting up at the source of supply is almost a natural result, because assuming you are going to do that, it is probably cheaper to break it down into small bits at the source than it is at the retail store end, for example.



COMMISSIONER WALTON: Beef and pork retail differently today. In the process you do more of the trimming for the pork products?

MR. McLEAN: That is quite right.

COMMISSIONER WALTON: The retailer deals with the cuts to the beef product?

MR. McLEAN: That is right. There is a reason for that, of course. In smoked meats that is true and the reason for that is that smoked meats can be satisfactorily -- there is no problem with either the appearance or keeping the quality of smoked meats in small pieces. With beef this is a serious problem. The surface darkens in appearance so that all beef from the point of view of good merchandising principles is cut at the last possible moment before you sell it, so that more or less prevents --.

I think it is probably true to say if it were not for that problem, if that problem were resolved, for example, that a very very considerable amount of the beef would be cut in the packing houses in the same way that smokes meats are.

COMMISSIONER DRUMMOND: Would it not be true to say in actual practice at least some of the bigger buyers of your products actually do specify just what they do want, not only in quality, regularity and quantity, but the particular form?

MR. McLEAN: May I refer that question to Mr. Dickson who is in charge of our sales area?



MR. DICKSON: I would say that to some extent that is true. Again I think probably the retailer is interpreting the preferences of the consumer, but they do give us guidance as to form, type, packaging and so on.

COMMISSIONER DRUMMOND: That is what I was driving at. My own feeling is that some party in between and my guess would be probably the retailers in this case, would be attempting to anticipate what we call the potential demand in the consumer.

MR. DICKSON: I think that is quite right. If I may add, early in the game a choice was given to the consumer in a good many cases. This is what we call market testing, in which, for instance, weiners could be either as a bulk pack loose as against the normal half-pound bag, and we let the consumer confirm, if you will, what her preference is, and gradually we adopt our procedures to conform.

COMMISSIONER DRUMMOND: Coming to the material dealt with on page 12, you state at the bottom of page 11 that "During the period under consideration the unit costs of the items that go to make our expenses have increased greatly."

I think some of my colleagues may want to ask you some questions relative to this, and perhaps there are one or two I might ask.

These items which you have listed here are all items which in your opinion have contributed



to cost increases, is that right?

MR. McLEAN: They have contributed to an increase in our expenses, but of course, offsetted against these we must also to some extent -- probably some different extent in each one of these, the factor of productivity. For example, I am not sure -- well, as a matter of fact I am. We have a better boiler house than we did in 1949. I think we produce more pounds of steam per ton of fuel so although our fuel cost is up 80 per cent, I suspect our steam cost is not, although something close to it.

COMMISSIONER DRUMMOND: In addition to possible increases for productivity, would there be any comparable list of items, either one or two or more which would go some distance towards offsetting these increases?

MR. McLEAN: You mean by that, sir, ones that have not gone up so much, or ones that have actually gone down?

COMMISSIONER DRUMMOND: Exactly.

MR. McLEAN: There is a list that have not gone up so much. I should not say a list, because really when you come down to it, we have taken here three items which by far are the biggest items in our expenses. That is production labour, office labour, which is in here as clerical costs, and supervisory or management. Just off hand I can't give you the percentage that these are.

MR. CARROLL: More than half.



MR. McLEAN: It is a good deal more than half. Now, there are some things that we have -- I don't think we discovered anything actually went down. In looking at these we have discovered some things that did not go up very far. For example, the cost of water in the city of Toronto has not gone up much until about a month ago. It is a very minor part of our costs.

The cost of electricity has gone up considerably, not as much as these, maybe 50 per cent instead of these figures in the main of 80 per cent.

The cost of burlap bags, which again would be almost a negligible factor, but nevertheless we do use them, has actually gone down, as I remember it. It is one of the few things we found. It is about the same. It went up and then down in the meantime.

Our salaries, wages and bonuses are almost exactly half of our total expenses. One moment. I forgot to add the contribution --. They have been more than half, somewhat more than half.

COMMISSIONER DRUMMOND: What percentage would they be of the sales?

MR. McLEAN: We have that here. For the last fiscal year it was 11.29. Unfortunately this does not include them all. 11.29 is what we figure.

COMMISSIONER DRUMMOND: I will leave that for the moment. At any rate, on page 13 you say



"It is also true that some 'C' grade hog types and weights produce cuts that must be down-graded..."

Do you mean by that which must be put into say grade "D"?

MR. McLEAN: No sir, that is badly stated. This means that they produce some cuts that must be sold. However much you wish to process them, you cannot make a product that you would wish to put in your top brand, for example. You sell them under a second brand name at a lower price.

COMMISSIONER WALTON: Hamburger?

MR. McLEAN: Hardly prime cuts, but they are not that bad.

COMMISSIONER DRUMMOND: On the next page 14 you are talking there about this differential that has been established between "A" and "C" grade, and the various grades and so forth. I know this matter has been often discussed, but perhaps I should ask it again. Is it a fact that we still have mixed differentials in the price of several grades for quite long periods of time? Did I make myself clear?

MR. McLEAN: I am sorry, I am not sure I understand.

COMMISSIONER DRUMMOND: You have these fixed differentials between your "A" and "C".

MR. McLEAN: Of \$3.00.

COMMISSIONER DRUMMOND: Yes. You have similar fixed differentials between every two grades, is that correct?



MR. McLEAN: That is correct.

COMMISSIONER DRUMMOND: How often are those changed?

MR. McLEAN: Certainly there is no regular interval. I think it would be fair to say they are changed only by consultation and discussion when somebody thinks they should be changed.

MR. LASBY: That is right, yes.

COMMISSIONER DRUMMOND: It would probably be several years between changes?

MR. McLEAN: Yes.

COMMISSIONER DRUMMOND: Is it possible during that interval because of supply and demand conditions and conditions in respect to some one of these grades, it might change sufficiently to result in a price for that grade which would be out of line with the so-called fixed differential price?

MR. McLEAN: I am not sure I can answer that.

MR. LASBY: I think, Dr. Drummond, if I may comment on that. Actually in the hog production in Canada, hog production is quite uniform. Approximately between 75 and 80 per cent are in your two top grades of A-1.

The Canadian producer has produced within that large range and in that large percentage there is good uniformity. When you see their out-grades such as "C" or light differentials there are returned more even in the larger other grades. Does that answer your question?



COMMISSIONER DRUMMOND: Yes. I would expect that.

My question was simply, has there been any change at all in recent years?

MR. DICKSON: There apparently has been quite a tendency for hog producers to perhaps pay less attention, I don't know whether that is the right way to say it or not, to the grades, and you had a larger percentage of second grades than selects.

COMMISSIONER DRUMMOND: A larger percentage than you had the years immediately preceding?

MR. DICKSON: Yes.

MR. McLEAN: This is mainly true, sir, in the western provinces. Rightly or wrongly, I think that probably has been interpreted as the result of the fact that it is difficult to get cash for grains and one way of saving it is to feed it to the pigs, and if you ever do feed starch to pigs as you know you have "C" grade pigs.

COMMISSIONER DRUMMOND: To the extent this has happened, you might have during this period a very large percentage of second grade or "C" grade being supplied there, and subject to the demand, it could result in price reduction from the fixed differential.



COMMISSIONER DRUMMOND: On page 17, about the middle of the page you say:

"Over the next 25 years the packinghouse industry will be called upon to expand and increase its facilities to probably double their present size."

I was wondering whether you were taking the Gordon Report seriously. Assuming this prognostication is somewhere nearly correct, first of all, to what extent is there already unused capacity in your plants?

MR. McLEAN: In our own plants?

COMMISSIONER DRUMMOND: Yes.

MR. McLEAN: Well, I am sorry, but I will have to give you two answers to that, it is a little complicated. At certain times of the year there is lots of unused capacity, but in the situation we have now, the hogs we have now, we have no unused capacity. I would say that is over stated a little, in the past we have discovered that when we think we cannot do anything, if we just press ourselves a little we can do it, and in that sense there is some unused capacity, but very little as is evidenced by the fact that we have just completed building an addition on our Edmonton plant, and we are building a small one in Saint John, and contemplating them in other places.

COMMISSIONER DRUMMOND: So, by and large, there are seasons of the year when you have pig



marketing and you are operating to capacity?

MR. McLEAN: Yes. The other factor, if I may mention that, it is the change in the character of the functions that we have already spoken of in the case of pork, pork requires considerably more space and a considerably higher investment in machinery and so on, as well as investment to slaughter animals we have not tried to uncloud our crystal ball enough to say what form these products will be sold in 25 years from now. I do not know what change in investment that might involve.

COMMISSIONER DRUMMOND: Speaking of your various plants, how many have you now across Canada?

MR. McLEAN: We have 12, and that is dignifying one rather small place.

COMMISSIONER DRUMMOND: You mentioned this small plant, and that leads me to the next question, among these 12 there is quite a wide variation in size, and state of operation?

MR. McLEAN: Yes.

COMMISSIONER DRUMMOND: To what extent does that variation in scale result in a variation in operating costs -- again a general answer?

MR. McLEAN: Yes, I will have to say there is no pattern. There are variations in efficiency of operation across the country, across our plants I should say, we keep records on plant activity per man hour and so on, the number of pounds and so on, and it varies, but I would not say that it is closely related at all to the scale of operations.



MR. CARROLL: In total expenditures there is relatively little difference, and no broad principle that you could say a big or small one costs less.

MR. McLEAN: In the one plant the nature of operations might be different, but the total expenditures there is not much difference.

Now, there is one size for some operations, and I think one example is putting sliced bacon in a package, a place has to be big enough to afford a wrapping machine for those packages, but in the main it is not much larger. Even a local dealer can achieve and in most operations the local unit does achieve the optimum size.

COMMISSIONER DRUMMOND: To further elucidate, this may be an extreme, but let us compare your Toronto plant at one end, a large scale one with, let us say, the small one in Saint John. There is a tremendous variation there, would you say there that some of those operations are much more efficiently done or can be done than by people living in Toronto?

MR. McLEAN: Saint John, I wish we could compare it with another one only for the reason that the one in Saint John we have not run as long as some other properties, and we think we have somewhere to go. Charlottetown is also a smallish operation, and I would say in Charlottetown the overall efficiency is somewhat less than Toronto, but not very much. There are a good many operations



which are more efficient in Charlottetown than in Toronto. In Saint John I would say that the overall efficiency is lower than Toronto, but we are not convinced that this is due entirely to the size or bad work.

COMMISSIONER DRUMMOND: But scale would be a factor, would it not?

MR. McLEAN: Yes, I think I would have to admit that scale is a factor. However, I would say in well run operations with a good manager and equipment supervisory talent, it would not be a factor even with the enormous spread -- I would not say it would be a factor to any more than 4 per cent or 5 per cent.

In other words, assuming Toronto is 100 per cent efficient, which it is not, an operation the size of Saint John, I would think with good management you should be able to get about 95 per cent, 96 per cent or 97 per cent, in that area in comparison to Toronto.

MR. CARROLL: Perhaps I could make it a little clearer if the Commission is interested in this. Quite a large operation has its advantages where you have some operation such as rendering or the engineering that requires a man or certain men, no matter what size the operation, he should be able to do a small or a large one. At the other end of the scale, taking, for instance, the advantage of a small plant, you have so much shorter space to move the product, a great deal of



packing houses today must start on the killing floor and move to the meat room and into the fancy meats room, and then to the cellar and in a large place, because you cannot have everything close to everything else, the movement of the product around takes a lot of labour. These are two examples of things there when you are differentiating between a small and large plant. However, in a smaller plant, the workmen have a better idea of what everybody else is doing, so control is easier, operations seem to run more smoothly.

COMMISSIONER DRUMMOND: I would have thought that anyway you had an operation which was a highly specialized one; there, it could be done a bit more efficiently?

MR. McLEAN: I think that is true if you were doing that operation all the time. There are many operations in the packing houses that you only do at intervals, and not only moving the product, but moving people from one job to another which involves getting people trained for different purposes. These are some of the problems.

COMMISSIONER DRUMMOND: Do I take it from what you say that for all practical purposes your two Maritime operations are practically as efficient from the operating standpoint?

MR. McLEAN: I think I already expressed slight reservations on the part of Saint John, but with the exception of those, yes.

COMMISSIONER DRUMMOND: As you are well



aware, I chose this because there have been discussions from various people at various times about prices paid in the Maritimes, that they were not comparable. Now, speaking of this same factor of size, would this be a further deduction: You have large-scale plants, and some of your competitors also have some large-scale plants, but the largest percentage of packing plants that are characterized as such are relatively small-scale operations, is that true?

MR. McLEAN: Yes.

COMMISSIONER DRUMMOND: Do you feel that by and large those smaller-scale plants are just as good and operate as efficiently from a processing standpoint?

MR. McLEAN: Yes, I hope -- I think efficiency is in direct relation to the calibre of management, and a great many of them are very well managed indeed.

COMMISSIONER DRUMMOND: Just because they are smaller is no reason for them to be inefficient?

MR. McLEAN: No, within very narrow limits that is true.

COMMISSIONER DRUMMOND: Would you add that it is because of the possibility that they are relatively efficient that they have been able to survive?

MR. McLEAN: Yes, I suppose that is true, although we have never felt, we have never had the time or energy to see if it was possible to run the



whole packing business in Canada. In other words, I think it is a different business, and it is bound to be under different management, but in the main that is true. If they were less efficient they would not survive, if they were much less efficient they would **not survive long**.

COMMISSIONER DRUMMOND: I am very interested in getting the special advantages which the small plants have, and the special disadvantages they have. We hear a great deal about this.

MR. CARROLL: One factor that has not been mentioned, but it is obvious, I think, is that many of these plants operate in a local area both for product and/or consumption, and in many cases, as has been mentioned, transportation is important and it will become increasingly important so that the local plant is apt to have an advantage both ways in transportation. It certainly does not pay to truck stuff too far to decentralize it, and then take it back again.

MR. McLEAN: I think it is also fair to say that a good many of the small operations operating in a local area are not government inspected -- I do not mean the salaries of the inspectors, but equipping the plant so that it is suitable for government inspection requires a good deal more investment, than a plant which is operated without government inspection.

COMMISSIONER DRUMMOND: You are thinking of some of these things called slaughter houses rather



than packing plants?

MR. McLEAN: No, I am not, there are a good many that are not government inspected, it is not regulation unless you are going to ship interprovincially, so there are many, many people who do not do that.

COMMISSIONER WALTON: It would be local, they would not be moving frozen hog carcasses --?

MR. McLEAN: They might, very easily: For instance, if they operate in Ontario they might well do that. In certain periods of the year, it is deficient of pork products, this is in Ontario and there is more consumption than the animals that are killed, so they might well do that, and they can do that, of course, bring in frozen pork goods, buy them from a broker or from an inspected plant in the West, so long as they do not ship the product they produce out of the province.

COMMISSIONER DRUMMOND: How do you handle the by-products from plants such as your small ones in the Maritimes?

MR. McLEAN: Well, we are reasonably well equipped to handle by-products at all our plants with two exceptions, the principal exception would be Moose Jaw, where we are not as well equipped as we would like to be. This scale of the operation is so small it is difficult to afford by-product equipment, and the complexity of by-product equipment, it is certainly true that we have more



elaborate equipment at our larger units, but when I say larger units I am only really excluding the two and the remaining units are equipped in approximately the same way.

COMMISSIONER DRUMMOND: Well, does that suggest that a relatively small independent packing plant can technically make efficient use of by-products?

MR. McLEAN: Yes, very much so. It requires some investment, of course, but the scale of operating in by-products is not a difficult problem at all, you can operate at quite a really low scale on by-products. There is equipment available which we have in some of our plants which allows you to operate on quite a small scale.

COMMISSIONER DRUMMOND: Turning to something quite different, the disposal of your processed market, you have over the years had a number of branch houses, is that correct?

MR. McLEAN: That is right.

COMMISSIONER DRUMMOND: And quite a large sales force?

MR. McLEAN: Yes.



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COMMISSIONER DRUMMOND: In recent years I presume that you have sold a constantly larger fraction of your total outlet directly to the larger buyer?

MR. McLEAN: Yes, I would say that is true. Mind you, we have always sold a very considerable percentage of our output directly, but it is quite true that in recent years the volume to our branch house operation compared to our total operation would be a smaller percentage of our total volume.

COMMISSIONER DRUMMOND: Does that mean that the need for branch houses is, to some extent, becoming less?

MR. McLEAN: Yes, depending to quite an extent on the part of the country you are talking about. However, that is quite true in some locations.

COMMISSIONER DRUMMOND: It would not be true of Newfoundland?

MR. McLEAN: No, and it probably would not be true of Sydney, Nova Scotia, for example.

COMMISSIONER DRUMMOND: And, similarly, since you have sold, I suppose, a steadily larger fraction of the product in large quantities in this direct fashion, there has been less need for this large selling force?

MR. McLEAN: To some extent that is true, although the need to observe and service, if you like, your product in the stores has by no means disappeared. Even though you sell it to a central buyer, there is still considerable need to observe and service your product at the point where the customer sees it.



MR. DICKSON: We might also point out that while it is quite true the percentage of our total product is being sold to large accounts, as we call them, the fact is that the dollar per tonnage sold to independents has not decreased. Really, what we are saying here is that what additional sales help we have required has been on the part of large buyers, while we have maintained our sales force in the distributing trade. A salesman can make so many calls a day and sell so much product. The fact is, he is not quite, but just about, holding his own. However, you have not had the increase with the tonnage; in other words, percentage-wise yes, poundage just about holding its own.

COMMISSIONER DRUMMOND: So you have actually retained up to now substantially all your sales force?

MR. DICKSON: Substantially; there have been minor changes. We amalgamated in the City of Toronto where it has been possible ---

MR. McLEAN: In the larger urban centres we have been able to reduce. In the other areas, no.

COMMISSIONER DRUMMOND: Would it be true to say that as these sales to large accounts increase that that is a way of saying that the wholesale function has been increasingly performed by someone other than yourselves?

MR. McLEAN: Hardly, I think. It depends on what part of our business you are talking about. If we could break that question down and talk about the meat business as such, this is hardly true. The



wholesale function has never been substantial in Canada -- or, not in a long time, except for specialist supplies to restaurants and hotels, and so on, which still are in approximately the same position in the trade that they always were. But, the wholesale function -- really, there hasn't been a wholesale function in most of the meat business.

COMMISSIONER DRUMMOND: Well, you, yourselves, have been really performing the wholesale function?

MR. McLEAN: That is correct, and still are in the main.

COMMISSIONER DRUMMOND: That is my question.

MR. McLEAN: Oh, well, let me put it this way: on fresh meat this is nearly true; it is not quite true. I would have to qualify it some, but on fish meat and on most packaged meats, although the corporate and voluntary chain groups purchase centrally, we still, in the main, deliver to their stores individually. This is not universally true. There are some chains which operate their own organizations -- in the metropolitan areas, but not too many. In the main, we are still doing the distribution job. So, in the main, that is still part of the wholesale function; in other words, it has affected the actual selling cost -- it is not to a large extent -- in fact, the distributing cost. It has only affected the distributing cost to the extent that on the average the chain stores operate larger units than other retailers. So, the more you can deliver per unit the lower the delivery cost.



COMMISSIONER DRUMMOND: You lower your delivery cost there as well?

MR. McLEAN: Well, slightly; the principal cost is moving your truck up and stopping at all. So, the amount of delivery per stop is not quite as important as it appears.

COMMISSIONER DRUMMOND: But you do save on your selling expenses?

MR. McLEAN: Yes.

COMMISSIONER DRUMMOND: Which includes, I suppose, your accounting?

MR. McLEAN: Yes, but even our accounting -- to some extent, credit, for example, on actual documenting of invoices you are in the same position. We normally supply one invoice per store, but although it is all one order in one large piece, we break it down for the purposes of delivery invoices.

COMMISSIONER DRUMMOND: If you sell to the large supermarkets you presumably deal directly with their buying representative. When you sell to the so-called voluntary chains, who exactly do you see?

MR. McLEAN: This is a very mixed system. Perhaps Mr. Dickson could reply to that.

MR. DICKSON: Actually there is a pattern -- some of the larger wholesalers are now buying on behalf of their members, but I would think that percentage-wise -- well, I would hate to guess at a percentage -- but there are still a large number of wholesalers who request that our salesmen go to the stores and book the order.



MR. McLEAN: It also depends on the product. There are voluntary groups who buy one product with a central buyer and, on other products, they wish our salesmen to solicit orders.

COMMISSIONER KIDD: In discussing the point of return on investment you have set up a theoretical example: now, you say, that if you follow that example through this would represent a return of 4.5 per cent on investment after tax, and on the next page you say that if the average value of fixed assets is only one-half of their replacement value, this would be 7.7 per cent?

MR. McLEAN: Yes.

COMMISSIONER KIDD: What has been your actual return on investment?

MR. McLEAN: I have explained that in the meat business this is practically impossible for us to calculate, but on our whole business -- on our total business -- I have it calculated it here for the past few years, and it runs:

Fiscal 1958	9.1 per cent
Fiscal 1957	9.1 per cent
Fiscal 1956	9.9 per cent
Fiscal 1955	9.0 per cent
Fiscal 1954	9.4 per cent.

COMMISSIONER KIDD: You say in your theoretical example that you could estimate the profit to be \$1.50 a head: is this with or without by-products?

MR. McLEAN: This is with; all in.

COMMISSIONER KIDD: You can look at this two



ways: one, it is a new company and a new plant?

MR. McLEAN: Right.

COMMISSIONER KIDD: Two, it is an addition to present plant capacities. Well now, if it is an addition to present plant capacities, this could only mean adding to volume?

MR. McLEAN: I am sorry?

COMMISSIONER KIDD: If this is in addition to present plant capacities, it simply means you would be adding to volume of sales?

MR. McLEAN: We would be hoping to, yes.

COMMISSIONER KIDD: So, if you add to the volume of the sales, then in this hypothesis, your income would be greater?

MR. McLEAN: That is correct.

COMMISSIONER KIDD: So that the 4.5 per cent return, if we look at it from that angle, probably would not bear too much relationship to reality?

MR. McLEAN: Oh, yes; our general experience is that additions to existing plants are more expensive to complete than starting with a piece of ground and building a new one.

COMMISSIONER KIDD: Oh, yes, more expensive to complete, but the point is they add to volume and spread costs, and you get more sales?

MR. McLEAN: No, that is not quite correct, I don't think. We add to the volume, but we have also added to our investment, and there are several ways to look at this. You can look at your overall position before and after, or at the money you have to spend on



the addition, and the profit which you would attribute to the extra volume, and if you did that I would say you would come back very close to the figure of 4.5. But, if you look at it on an overall company position before and after, in our case, depending on how large the addition is, you would have to see what the dilution factor is -- it may not change it very much, because the dilution factor is so great.

COMMISSIONER KIDD: Wouldn't it be better to look at the overall picture and calculate what the rate of return has been on the overall plant as depreciated?

MR. McLEAN: This is what I have done with this 9.1, but it does not represent meat goods. This represents all of our business, of which there are very substantial pieces outside of the meat business.

COMMISSIONER KIDD: Are your selling prices the same to all customers within an area?

MR. McLEAN: No.

COMMISSIONER KIDD: What accounts for the difference?

MR. McLEAN: The type and size of customer; the delivery cost to us sold delivered; the volume buying, would be the principal factor.

COMMISSIONER KIDD: Has there been much of a change in the pattern of selling, that is to say, has the control of selling price shifted in any way in recent years -- the control of your selling price?

MR. McLEAN: I would not say appreciably, no.

COMMISSIONER KIDD: It has not shifted into the hands of the buyers away from the sellers?



MR. McLEAN: I would not say so. We used to argue with them and we still do.

COMMISSIONER DRUMMOND: Do you argue a little more lively now?

MR. McLEAN: This is very difficult; this is a subjective measure. There is no objective way of getting at it.

COMMISSIONER KIDD: I am asking you some of the same questions I have asked other firms, and we have had given to us that the large chain stores have, to quite a degree, obtained control of selling price of the packer's products; in other words, that the pressure has come on the packer from that end. You are not so sure of that?

MR. McLEAN: No, I am not. The buyer has always had control of the packer's selling price under certain situations. It depends on a great many things; for example, it is not by any means unusual for packers in the meat business to go for quite considerable periods suffering losses on meat products. If we had complete control over our selling prices, we would not do that. Under those particular sets of circumstances the buyer obviously has control and presumably is being pushed at the other end by the consumer; the retailer is putting downward pressure on our selling price, and presumably the reason for that is the downward pressure on his price by the consumer.

COMMISSIONER KIDD: Would this work back to the producer? If you have the downward pressure of the retailer on the packer, does this work back to the



producer? Does it lower his chance of improving his position?

MR. McLEAN: Again, I would have to say that only under certain conditions yes. On the average, however, I would say that the large buyers are in the main very expert merchandisers, too, and these are very difficult figures to get at and very difficult to form objective judgments on this. I would say, on the average, the ability to move products in the large buyers results in the producer probably getting a higher price, on the average, and at certain times lower -- and other times higher; in other words, if there is a certain amount of livestock grown, I think the one important thing to remember is neither the packer nor the retailer or consumer has any control of the quantity that has to be moved. We merely move the livestock that is grown and if, as a result of many individual decisions on the part of the producers, there is a large increase in the amount of livestock grown, under those circumstances the large buyers are very expert indeed at moving large quantities into consumption.



COMMISSIONER DRUMMOND: What you are suggesting there are at times buyer's markets and at other times seller's markets.

MR. McLEAN: That is right, there is never really either one in point of fact.

COMMISSIONER KIDD: The emphasis resolves on the sizes of sales.

MR. McLEAN: Yes, to a certain extent, and of course, if you buy a great deal more product you get a lower price.

COMMISSIONER KIDD: Is it necessary for the large packer to grant the retailers allowances of any kind?

MR. McLEAN: I would like -- The word allowances is pretty broad. If you mean --

COMMISSIONER KIDD: Quantity discounts, and advertising allowances.

MR. McLEAN: Yes, in some products although very little on meats. There is a good deal of data on this in the answer to the questionnaire.

COMMISSIONER KIDD: I know that. I am wondering if for the purposes of understanding the effects of the allowances, you could perhaps explain the situation a bit today.

MR. McLEAN: I am sorry. I will try to answer whatever it is. I am not sure, for instance, just what we are trying to get at.

COMMISSIONER KIDD: My question was, is it necessary for the large packers to grant allowances?

MR. McLEAN: We have already stated, for



instance, we sell larger quantities of product at lower prices. This presumably is a volume allowance, if you wish, or quantity discount. There are products on which there are certain advertising allowances. They are not meat products. I cannot see any one in meat products. None on fresh meats.

COMMISSIONER KIDD: Would there be any say on your branded meat product?

MR. McLEAN: Let us start at the other end, whatever that may be. Canned meat, yes. It is to quite a considerable extent. Actually the figures are given in the answer to the questionnaire. Cooked meats to some extent, but less so. Smoked meats almost not at all, but to a slight extent, but less still and on fresh meats not at all.

In addition there are many other products we sell such as canned goods, canned fruits and vegetables, there are advertising allowances available on every sale which would vary in size or percentage for the sale price, according to quantity.

COMMISSIONER KIDD: In every sale did you say?

MR. McLEAN: In the case of canned fruits and vegetables, yes.

COMMISSIONER KIDD: It is not just charged for certain products or for promotional reasons?

MR. McLEAN: No, I said -- I am sorry I misled you. I said they are available on every sale. However, they are only available by mutual agreement



on what they will be used for.

COMMISSIONER KIDD: You have some say as to whether it is going to be an advertising campaign?

MR. McLEAN: That is quite right. We have discussions with the retailers concerned. In fact there are many sales made where an allowance is not given because the retailer is not prepared to do advertising and what have you.

COMMISSIONER COUVRETTE: Just one question for clarification purposes. You mentioned the chains are buyers, and what do you include chains? In what group do you include the voluntary chains?

MR. McLEAN: From our point of view and for most of our own thinking we include them with the corporate chains because they are dealing with a great many products. From our point of view, dealing with them is similar to dealing with corporate chains. I am afraid you would have to have some considerable variation of the voluntary chains to make Mr. Dickson's answer to that question correct. This is a subject about which we are most confused ourselves. From time to time various groups have different practices. From the supplier's point of view it is much easier to deal with chains than with independents in deliveries. The opposite is true, so there is no clear-cut line.

For instance, in many groups our salesmen solicit orders from the individual stores at their



request, so from our point of view they look like independents, but from the point of view of sales expenses and delivery expenses and all the rest.

COMMISSIONER KIDD: Just a moment ago at one point were you suggesting that the return to the company from your other lines of food products, was greater than meat?

MR. McLEAN: I did not say food. I would like to think about that, to see whether it is true. I can't think of one at the moment.

MR. CARROLL: I would say the other products include some food products.

MR. McLEAN: I was suggesting it on other products, products other than food in the main.

COMMISSIONER KIDD: On investment?

MR. McLEAN: Yes.

COMMISSIONER COUVRETTE: I just asked for clarification purposes.

MR. McLEAN: I am sorry. I can't add more to help you.

COMMISSIONER WALTON: I think this is just for the purposes of clarification too. I noticed that between A and C grade hogs, there is a market differential of approximately \$3 against the grade C hogs, but in the actual processing you could conceivably get a very good Grade A product out of a C grade hog.

MR. McLEAN: That is quite right.

COMMISSIONER WALTON: Presumably from a Grade A hog, you could also have some Grade C product



coming out of the Grade A.

MR. McLEAN: Very rarely. It could happen.

COMMISSIONER WALTON: Because of this factor it is really only the brand name to the consumer product where the identification is.

MR. McLEAN: That is quite right. It is the judgment and the integrity, if you wish, of the processor.

You will notice in the chart which is attached or the table rather, that is in the brief, you will notice, for example, that all of the cuts and sundries have been shown exactly the same for "A" and "C" with the exception of bellies. You get a much lower percentage of Grade A quality bacon out of C grades than A grades. So we have shown the value of bellies to be 3 cents a pound less than Grade A.

Actually on cutting tests of bellies or slicing tests, the differential is actually a little larger than that. This sort of figure of 3 cents is not true. They are at equivalents but one "C" grade may be different from another "C" grade hog, so rather than confuse the issue more, we **have** shown them to be equivalent. Even showing them to be equivalent, the difference in value is greater than the three cents differential.

COMMISSIONER MacKICHAN: I have one question. While this does not come within the terms of reference exactly, would you name -- not in specific quantities, but name the normal food



products that would come into this.

MR. McLEAN: Yes. Fertilizer, chemical fertilizers, animal foods, soap, detergents, glycerene, leather. I have a list here, gelatine -- that is a food product of course.

COMMISSIONER MacKICHAN: I just had in mind the major ones.

MR. McLEAN: The major ones are the soap and detergents, fertilizer, feed and leather. After that we get down to the smaller ones, feathers and down.

COMMISSIONER MacKICHAN: Under what heading would have integrated, let us say, the broiler business? Would your broiler business in Nova Scotia come in? Would it be a factor?

MR. McLEAN: I am sorry, sir.

MR. CARROLL: It is included in the meat.

MR. McLEAN: Yes. Then in the food inspection there you have other products, of course, butter, eggs, cheese, poultry, ice cream, fresh fruits and vegetables, canned fruits and vegetables and pickles.

COMMISSIONER DRUMMOND: Has there been any reduction in the seasonal character to your processing operations?

MR. McLEAN: Yes. The season swing is not so great as it used to be. With hogs, for instance, there is a more level supply over the year. However, there is still a very substantial amount of seasonal swing. This trend, I would expect,



would continue.

COMMISSIONER DRUMMOND: In so far as this has happened, it will have a contribution to cost increase.

MR. McLEAN: Yes, because of the lower total facilities to process everything that comes in.

COMMISSIONER DRUMMOND: One final question. This may not be fair. Have you noticed any, shall I say, distinct preference on the part of the general retailers to buy from the independent packers first or as much as possible before coming to the larger packers?

MR. McLEAN: I am not sure I understand the definition of the word "independent".

COMMISSIONER DRUMMOND: I am thinking, I suppose, of a packer that has a single plant operation.

MR. McLEAN: I would not say a distinct preference, no. Certainly chains buy from almost all packers. There are some single plants, if you like, or independent small packers, who specialize in selling chains, if you like. I think that is the question of the chicken and egg process. I am not sure which comes first.

If you are talking about one small packing house in a large urban centre, possibly one way to sell their products at a very low sales expense is to sell to nobody but chains.

COMMISSIONER DRUMMOND: I was thinking of the point that Mr. Kidd raised earlier. That was



that the chain buyer had a very strong buying power.

MR. McLEAN: Yes.

COMMISSIONER DRUMMOND: Naturally you want to buy from, I would think, the weaker seller, the one with the weaker bargaining position or weaker seller. He might, it seems to me, think of the smaller scale packer as a person who might have less ability to dictate their prices.

MR. McLEAN: I don't think we can --

MR. CARROLL: I think I might suggest, sir, that in the case of the meat business, all packers, large and small, have their back against the wall. Within half a per cent or so you can't squeeze very far.

THE CHAIRMAN: Mr. McLean, it is on the record that when Burns Company representation was here in reply to a question Mr. Munn did say that within recent years they have had to modify their selling procedures to a considerable extent in view of the development of the large buyer, and that they were feeling pressure. You have not apparently been prepared to go as far as Mr. Munn.

MR. McLEAN: I would say that our answers may only be different somewhat by the difference in degree. We may have misled you, or unintentionally misled you slightly in saying we have not modified our sales procedure. We have, of course, but we don't consider it a major modification by any means. If we speak about branch houses, I think there is no question but that in certain areas, branch houses



are becoming less necessary, but however, it is mainly due to improved roads and quicker transportation more than it has anything to do with the sizes of buyers. We, I think, will require modification, and require modification right now as far as the chains or chain store organizations are concerned. As I said before, we don't -- although we don't sell at the store level, we have found by experience it is necessary to observe your product where the customer is going to see it. It seems only in your own interest.

MR. DICKSON: I wonder if I may be permitted to say this, that with the chain development, that the type of salesmen contacting that customer, has to be of a somewhat different calibre than the man that was in the country in this way: First of all, you have a businessman who is at the store even to a greater extent, because the chain stores put a merchandising man to a greater extent than the individual independent store. They are looking for some integrated programme such as "Will you be able to move in greater quantities?" "Are you planning an advertising program?" "Are you planning to advertise in the paper?"

These men contacting in the chain have to be well informed men.

MR. McLEAN: The better rounded men, if you like.



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COMMISSIONER COUVRETTE: Just one question in a general way. If the large retail operations had higher costs than smaller operators, would they be able to upset an important part or most of it through the special quantity discounts or allowance that they would get from you?

MR. McLEAN: No, sir, certainly not in the meat business. Let us again break the business up because there is a difference here and certainly in the meat business, certainly not. In the other business I would say not too. These economies in large-scale buying are there all right but they are minor. There is not much room for them. You see, if our average profit on meats is a quarter of a cent a pound, and being a little generous, that is the best he could do. He could talk us out of all our profit but that is the best he could do.

COMMISSIONER COUVRETTE: Of course, it would be a quarter of a cent a pound at the end of the year, for every pound you sell. It would be much more in large quantity selling?

MR. McLEAN: Yes, I am sorry; I thought your question referred to the ratio of the savings that might be made to the retailers' operating expenses. I do not think that would be a very significant part.

THE CHAIRMAN: Mr. McLean, we have been keeping the ladies waiting and this is a dangerous thing; although we could continue to ask more questions, I think we will stop at this point.

I would like to say again that some time we



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may want to talk to you about hog marketing.

MR. McLEAN: I would like to do that very much, sir.

THE CHAIRMAN: Thank you very much indeed.
We will stand adjourned for ten minutes.

---Short recess.



Submission of
THE NATIONAL COUNCIL OF WOMEN OF CANADA

Appearances:

Mrs. F.E. Underhill

THE CHAIRMAN: We will now hear the brief on behalf of the National Council of Women of Canada, and it will be presented by Mrs. F.E. Underhill. Will you proceed to read your brief, please?

MRS. UNDERHILL: Yes, Mr. Chairman. Mr. Chairman, Mrs. Walton and gentlemen, the National Council of Women of Canada, an organization of women's groups -- federated to further their mutual interest and the betterment of the Canadian way of life and representing 700,000 women -- submits this brief for the following reasons:

I. To present their interest in a sound national economy, which will not only preserve our high standard of living, but stem these rising costs and maintain fair prices.

II. To forward criticisms and complaints of present economic practices which seemingly result in unnecessary costs.

III. To inquire whether the rising cost of food could create health problems.

I. To present their interest in a sound national economy, which will not only preserve our high standard



of living, but stem these rising costs and maintain fair prices.

(a) Throughout Canada, women are disturbed by the high cost of living, its spiral climb and the danger that it will continue to rise. The dollar has not only lost its purchasing power but true value is not always received.

(b) The National Council of Women of Canada are perturbed by the unusually high level of unemployment which exists at this time. It is not only the family of the unemployed citizen who suffer but the effects of unemployment are contagious, with the result that ultimately the whole Canadian economy reacts.

II. To forward criticisms and complaints of the present economic practices which seemingly result in unnecessary costs.

In this era of mass emigration from rural areas to the city and adoption of the ways of urban life, increasingly fewer families can grow their own, make their own, or do without that which they cannot do for themselves. Money is an absolute essential to healthy wholesome living and to family security. The price, quality and the supply of consumer goods is therefore of vital concern to the 700,000 women who compose the National Council of Women. For these reasons the women of Canada want the following -- which we submit would be effective in maintaining a high standard of living while retaining fair prices to all, give better value



for money received and ultimately have a favourable effect on Canada's economy --

(a) Standards: 1. Standards of quality ought to be defined in consumer goods of every type -- food, clothing, appliances, etcetera. Moreover, reliable information about the product involved and its standard of quality should be available "at the point of sale".

2. The establishment of defined standards of quality in consumer goods will necessitate regulations, both federal and provincial for the inspection of such standards and the enforcement thereof. It will also be necessary to appoint adequate sized staff in both the federal and provincial governments, or a combination of these, to meet the rapidly increasing demand which adequate inspection will require.

3. The standards of processing, storage and distribution of food products to comply with the requirements of Canada's Food and Drug Regulations should be strictly enforced. Moreover, a trained and adequate sized staff must be maintained, not only to inspect, but to inspect as frequently as rapid compliance with continuous orders received for food products may demand. Only in **this** way can we be assured that the food involved is clean, sanitary and free from bacteria.

(b) Marketing: While it would appear that marketing boards for every type of product grown are becoming more prevalent and powerful in



the control of production, marketing and cost of primary products, it is essential that equal consideration be given to the rights and needs of the consumer, producer and the distributor. It will always be a mystery to the citizen why a basket of peaches purchased at the road-side stand in the middle of a "peach area" costs the same amount as that same basket shipped 300 miles away -- this situation could be duplicated in almost every grown product, and in every part of Canada. On all marketing boards, the consumer should be represented.

(c) Taxation:

1. As food is absolutely essential for life, no sales tax should be levied thereon. It might be well to mention here that women feel that the sales tax which applies to margarine is discriminatory.

2. Re the imposition of taxes and tariffs on food, it is essential that consideration should be given to the burden of costs and to the limitation of supplies that taxation of certain products would impose on consumers as compared to the benefits hoped for by the economic group requesting their imposition.

(d) Support Prices for Primary Products:

While the women of Canada realize that a level of support prices for primary products must be recognized in certain instances by the federal government and by producers, it is essential that the rights and interests of the citizens be considered. There should be consumer representation on the Agricultural Stabilization Advisory Board.



(e) The "Middle Man's" Contribution to Price Spread: While the "middle man's" contribution to food selling has resulted in a wider and deeper penetration of the potential market, at the same time the cost of whetting the appetite of the consumer and creating a desire in him for foods or merchandise of a better quality, has resulted in higher prices at retail, or a reduced share of the consumers' dollar at the farm, or both. This has been accomplished by two means: (i) sales promotion and (ii) packaging. While these two factors are basically different aspects of merchandising, yet of late years one has been used as an aid or complement to the other.

i) Sales Promotion or Advertising: Women are aware that the medium of advertising is a very important factor in our economy. Advertising has not only been "pitched" to create desires but to make them necessities. The result of this should be an increased sense of responsibility on the part of the producer, processor and merchandiser to the Canadian citizen and to the consumer, not only to give good and fair value for money received but not to mislead by either advertising couched in clever phraseology or packaging of a deluding nature and possibly containing a costly "give-away".

Canadian women want value received for money paid for a product -- they do not want costly and wasteful "give-aways", premium deals and "gimmicks". They resent paying directly or indirectly



for advertising in which some companies compete against themselves in childish radio tunes and TV cartoons -- the repetitiousness as well as the misleading content of this type of advertising is annoying.

ii) Women want goods simply packed in standard size. In this way not only will **what is** precisely required be available but the price spread between what the producer receives and the consumer pays for the goods will be at a minimum. For example, -- three pounds of rolled oats in an ordinary sturdy paper bag costs 29 cents -- a package of similar size gaily printed is priced at 41 cents. Women seek the right to choose a product on the basis of true value. We submit, therefore, that economy in packaging should be studied; for example, - Jelly Powders are 3 for 29 cents, these could easily be packaged together and accordingly sell for less.

To obtain "something for nothing" is an economic impossibility. We hope that the premium or "something for nothing" period is nearly over. The enclosing of a product in a package planned and engineered to draw sales by the attractiveness or eye appeal of the package, without due and sufficient regard to fair value given therein, comes close to deception. Women deplore the use of cellophane bags when their use enhances the looks or prettiness of a product and not the value. It is interesting to note that frequently these cellophane bags hold less than standard weight; and because staples are



used for closures of these food and candy bags, one must be careful that the staples do not slip down into the product and become dangerous.

The value of a product should sell that product and not the advertising or packaging conjuring up a desire. Moreover, advertising should be honest and factual, the packaging should be clean, plain, and in standard sizes.

(f) Resale Price Maintenance: The National Council of Women of Canada reiterate their support of Section 34 of the Combines Investigation Act. Price of a product should depend upon value given to the consumer and not upon any price arbitrarily set by a manufacturer. The price set by a merchant for his merchandise should reflect his efficiency as a business man and not a dictate of the manufacturer. We submit that not only is competition essential for business, but ultimately the consumer will benefit by astute merchandising and lower price reflecting greater demand for products of proven quality.

III. To inquire whether the high rising cost of food could create health problems: As there is a definite trend to urban living, it is essential that money replace man's effort to grow his own or make his own. Is it possible that in an effort to budget economically yet falsely the housewife finds some basic foods too expensive to buy in necessary quantities for the sound nutritional needs of her family? To be specific -- is the high cost



of milk making it too difficult for mothers to feed growing children sufficient quantities of milk? Do not old age pensioners and older people on fixed incomes have a similar problem?

Despite our population increase our milk per capita has remained constant, due to an increased consumption of cheese. While cheese is high in food value and low in cost, government nutrition experts advise against substituting any food for milk. We submit, that the price spread on milk should be scrutinized, and be reduced if possible, and careful consideration be given this matter by our government in view of the basic place milk holds in the nutrition of young and old alike.

Conclusions: 1. We submit that in an era when retail sales in Canada (1957) exceeded 14 billion dollars and food store sales soared to 3 billion dollars, it is essential that consumers' statistics be published on conditions of supply, processing, distribution as well as production of consumer goods, especially foods, and the costs and the development of their services. For example, -- we are told from time to time that with the current rate of increase of our population, and with the number of cows remaining the same for over a decade now, a shortage of fluid milk supply is possible. An increase in the volume of milk production per cow would be necessary to offset this. Statistics should be available to reveal reduction in acreage or in herds and increases in productivity, if any, as a guide



to the trend in the provision of food supplies for our growing population or as a warning against threatening shortages. While much of this information may now be found in one or other of the Dominion Bureau of Statistics Reports, it would seem of value for the Dominion Government to set up a department where consumer statistics and information could be found assembled together.

Women not only have the responsibility of raising and developing young citizens, but are the purchasing agents for most of their families' supplies. More information is needed on the increasingly numerous products, but this must be disseminated from a source that is fully equipped to deal with any consumer problem that may arise. We submit that more complete services for the dissemination of many kinds of consumer information should be initiated as soon as possible and urge that the Dominion Government undertake this project.

2. We submit that a minimum price spread is dependent upon the mutual co-operation of producer, "Middle Man", merchant and consumer! Therefore, it is essential that the consumer have representation on

(1) All marketing, processing and manufacturing Boards and Associations;

(2) The Agricultural Stabilization Advisory Board.

3. The women of Canada are not only aware



that it is impossible to get "something for nothing" and that "competition is the life of trade"; they are also aware of the effect of their responsibility for wise and intelligent purchasing, not only on the family budget but on Canada's economy. "Price Spread" can only be reduced by co-operation of government, producer, manufacture and citizen. The challenge of playing their role well - as citizen and homemaker - the women of The National Council are willing to accept.

The members of The National Council of Women of Canada extend their compliments to this Commission, and respectfully submit this brief.

THE CHAIRMAN: Thank you, Mrs. Underhill. Mr. MacKichan, have you any questions?

COMMISSIONER MacKICHAN: On page 2 the Council of Women suggests a thorough and complete system of inspection and grading, and I was just wondering what would be the reaction throughout the country to a whole army of new inspectors and graders, and all the rest of it? Probably next to the cost of living, there is more criticism of the number of civil servants we have than almost anything else?



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MRS. UNDERHILL: We feel there should be standards set and if standards are set, they must be enforced. We have just heard from the packing industry. We heard a few minutes ago, and you know, that certain packing plants are not government inspected. I believe that is when they do not export, but I may well be wrong there.

It is our submission that food is vital to the citizens of Canada and therefore it should be top quality and that requires inspection. It requires standards and also requires inspection to enforce those standards. I am well aware of the number of civil servants but I think this is a very acute problem.

COMMISSIONER MacKICHAN: Well, of course, we have a large number of products which are subject to inspection now and inspection at the retail level, too. I am thinking of eggs for one, and fruit, and a number of vegetables and that sort of thing. Probably it is not as complete or as full as it should be but we have a good measure of inspection and grading now and there are still, as was said today, a number of packing plants that are not under government inspection; but I think they will necessarily have to keep fairly close or they are just not going to stay in business. Would you agree?

MRS. UNDERHILL: Around our town of London and around our city, which is London, and around the small towns, there are a number of small packing houses and it would appear that they are staying in business possibly because their overhead is lower, but it is



something we feel is essential. Good clean food is absolutely essential.

COMMISSIONER MacKICHAN: Very definitely. Now, on the matter of gimmicks, we have heard a great deal about this feature and I have just been wondering with our attitude towards compulsion generally -- we chafed quite a bit under our wartime regulations and in the wartime, as loyal citizens, we took a lot we would not in peacetime; but instead of possibly erasing this thing and all the rest, if five hundred thousand of your members would decide they would go home next week with three pounds of rolled oats instead of one of those package goods you have, you would have a great effect.

MRS. UNDERHILL: You are quite right, sir. Actions often talk louder than words.

COMMISSIONER MacKICHAN: I think it would have probably a very salutary effect.

MRS. UNDERHILL: Actions do talk louder than words.

COMMISSIONER MacKICHAN: This is a very fine brief. I think actually it would be found to be more effective.

MRS. UNDERHILL: I am sure it would.

COMMISSIONER WALTON: I was just wondering, on page 3 at the fourth paragraph, you say:

"It is interesting to note that frequently the cellophane bags hold less than standard weight."

MRS. UNDERHILL: Have you ever tried to make



a Christmas cake, Mrs. Walton?

COMMISSIONER WALTON: Pardon?

MRS. UNDERHILL: Have you ever tried to make a Christmas cake?

COMMISSIONER WALTON: Yes, with more or less success; but do you mean by that that some of the packaged goods will contain so many ounces? You don't mean there has been a short change?

MRS. UNDERHILL: I don't mean there has been a short change. I think possibly what I mean is that the recipe will call for half a pound and then your packages are seven ounces or six ounces which will mean you buy two packages, and that is what is available on your shelf.

COMMISSIONER WALTON: Perhaps those of us who make Christmas puddings should let the packager know we would like the required recipe amount of a half pound. Do you think that is in part the problem or do you believe this is just the way the packages are and we don't read the weight?

MRS. UNDERHILL: I don't know I will go so far as to say that the manufacturer packages his product in six-ounce packages in order to ensure two packages will have to be bought to fill the recipe, but that could be because in other types of packages you will find it is eight ounces but it certainly looks pretty in the six-ounce package.

COMMISSIONER WALTON: I just wondered if you actually found it was labelled six ounces and it was only five ounces?



MRS. UNDERHILL: No.

COMMISSIONER WALTON: You don't mean that?

MRS. UNDERHILL: No; thank you for correcting that.

COMMISSIONER WALTON: With regard to your observation on retail price maintenance, is it the feeling of your organization that if we still had retail price maintenance it might have widened the cost of foods? This is within the Terms of our Reference. Do you feel -- it is now illegal -- that this tended to narrow the spread and without it it might have been the opposite, or have you any thought on that?

MRS. UNDERHILL: I have thought of that. While it is true that retail price maintenance did not deal in any great way with food, competition is always the life of trade and I brought this in because if we have competition you are going to get the best value for the money received. In other words, in our reiterating our stand in favour of competition under this Combines Investigation Act, I intended to put it into all foods, into all merchandise and I am trying to say we are at all times in favour of good merchandising.

COMMISSIONER WALTON: And you feel this had a narrowing effect on the spread?

MRS. UNDERHILL: That is right.

COMMISSIONER WALTON: I was just wondering, having been a producer of fruits and vegetables for a number of years, about your observation on stands. While we ourselves did not put a roadside stand up,



you do not understand why right next to the peach orchard or the raspberry vine they should not be able to sell more cheaply. I know in discussion with some producers they have said, "Well, we pick in smaller quantities. You get a fresher product than you could possibly get in the urban centres, and we have to sit here in the stand, even if it is one of our children, but then they are not picking raspberries or peaches.

Do you think that it should be purchased cheaper at the roadside stand than if it were shipped one hundred or one thousand miles away?

MRS. UNDERHILL: Mrs. Walton, I can see what your point is. I certainly understand it, that the farmer or the farmer's wife has to be paid so much a day for sitting at his stand but certainly people should benefit from the cost of shipping to market. However, it would be my feeling that some of the marketing boards completely -- or it would appear to -- ignore the citizen consumer as well as in certain cases the grower.

COMMISSIONER WALTON: Well then you feel -- this follows up another observation I have made, that all these government marketing boards or the different marketing agencies should have the representation of all segments of the country which would have the effect of narrowing this spread?

MRS. UNDERHILL: Yes, I do. Our thought is that if there were consumer representation -- let us use here on the Peach Board, for example -- then at least there would be some understanding of why on the



farmer's stand they sell at cost or at the same amount as in Loblaws in Windsor, three hundred miles away. I think any marketing should be a cooperative effort. I don't think it should be an effort on the part of the peach producers of themselves.

COMMISSIONER WALTON: Well, what you are saying is that it would permit greater understanding more than perhaps necessarily reducing the spread between the producer and consumer.

MRS. UNDERHILL: I also think there is a possibility that it would reduce the price spread.

COMMISSIONER WALTON: Where some of the provinces have had milk boards and there has been consumer representation on it, to your knowledge do you know whether this has had an effect of keeping the price down?

MRS. UNDERHILL: Mrs. Walton, I don't know but I would think, and I feel very strongly, that if the citizen is to consume something, to consume any product, then he should have some say in the price. In other words I feel that, again coming back to the peaches, it should not just be the peach growers who are concerned about it. I think it should be the citizens, or at least the citizens should have some representation on the board because this is not just a local problem, this is a provincial problem.

COMMISSIONER WALTON: The opinion you have suggested that we should provide more for consumers' information, I take it that is directed to costs of processing, distributing and those things put in a



form that the consumer can understand. This would add extra cost if we provided it for all foods, and in what form? Will it help the consumers to be able to buy more intelligently?

MRS. UNDERHILL: Yes, better education. It will also have, I would think, an effect on the consumers. Equally it will have an effect on the manufacturing and on the processing who, knowing this information is available, will most assuredly give the best product that he can.

COMMISSIONER WALTON: You do not think that there is sufficient competition now at these levels to ensure perhaps they are giving a good product, or do you think this would just improve the situation?



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MRS. UNDERHILL: I think it would improve the situation. The more education the better, and certainly I would feel that there would be only one group or one place they could undertake it, and that would be the Dominion Government; and, while they are carrying on their responsibility well now to the citizens of Canada, I think it could be improved upon.

COMMISSIONER KIDD: Mrs. Underhill, in your conclusions here you say that food sales soared to \$3 billion: what was the source of that statement?

MR. UNDERHILL: I am sorry --- ?

COMMISSIONER KIDD: Could you give us the source of it?

MRS. UNDERHILL: Yes. I am going to be ambiguous at this point. I got it from one of the stack of magazines and articles on my desk. I am sorry, I ought to have put that in.

COMMISSIONER KIDD: It seems to me that that figures out to \$3.50 a week in Canada, and it seemed to me that was quite a bit under the mark?

MRS. UNDERHILL: That is low.

COMMISSIONER KIDD: Also in your statements regarding sales promotion, advertising, packages, and so on, you say that women want to get rid of gimmicks and that some advertising is annoying and that "something for nothing" is an impossibility: are you quite sure that this is true in our society? You are pretty positive in your statements, and I am wondering whether the average housewife, in fact, does not think she is getting something for nothing, and whether she

really is bothered by the type of advertising that is thrown at her constantly?

MRS. UNDERHILL: I think women want good value for the dollar. I don't think there is any doubt about that at all. I believe that women are remiss -- I am going to use cornflakes as an example: one cornflake may have a little boat in it which Johnny wants to play with, and another brand may not. Well, mother has seen the plastic boat that Johnny can play in the bathtub with, and tries, unthinkingly, to please Johnny. Women are probably very wrong in doing that; of that there isn't any doubt in the world, but they are doing it because another side of their nature is being appealed to instead of their straight thinking side.

COMMISSIONER KIDD: So you think women shoppers have quite a bit of responsibility in changing this system if it is as wrong as you say it is?

MRS. UNDERHILL: It is almost like my children: I can say, "Don't chew bubble gum" or "Don't eat candy because it has an adverse effect." Well, they probably know that too, but when it is put in front of them, once in a while their common-sense goes. I am trying to say the merchandisers of packages have put something in front of the woman which should be a challenge to them to think--- but it is something their family might like and, because they try to please their family, they will take it. Mr. MacKichan was quite right: if women would go out and buy as I say here, and if you ask any one of them



that is what they will say, that when they get into their store they do it for their family.

COMMISSIONER KIDD: They have no sales resistance?

MRS. UNDERHILL: Which is quite a responsibility on the part of the manufacturer.

COMMISSIONER KIDD: Well, put it the other way: what can the women's associations do to counteract this sort of thing?

MRS. UNDERHILL: We can come to boards like you gentlemen and Mrs. Walton now, and represent what I shall call intelligent thinking. Women are intelligent; of that there isn't any doubt. We can come before those boards and present to you that the merchandisers and the advertising people have a responsibility because they are creating a desire -- to their own ends, of course. But, they have a responsibility to the citizens of Canada.

COMMISSIONER KIDD: When you speak about competition in your submission, you are talking about price competition?

MRS. UNDERHILL: Yes, sir.

COMMISSIONER KIDD: You will recognize there are other kinds of competition, such as advertising?

MRS. UNDERHILL: Yes. I am sorry, I was thinking of price competition and value. I guess advertising is one of the subgroups of that.

COMMISSIONER KIDD: Again, following up this question of women's groups, do you think there are any controls or pressures you can exert to turn



this system back into price competition and away from the other forms of competition?

MRS. UNDERHILL: We can try.

COMMISSIONER KIDD: You haven't any suggestions about what you think they may be? Let us go so far as to say controlling advertising of the type of product that you have mentioned?

MRS. UNDERHILL: Well, as far as that is concerned, again I can only talk of London, because that is the city I know. The Council of Women approached the radio station and the TV station and, of course, he who buys the time calls the tune, and there isn't very much you can do when they begin to talk dollars and cents, and there are wheels within wheels all the way through. I am only mentioning again this radio advertising and TV advertising, and it is absolutely -- how can I put it?

COMMISSIONER KIDD: You had better be careful, now.

MRS. UNDERHILL: It is annoying; it is amusing, and it is also deluding at times.

COMMISSIONER KIDD: And you think it is also costly?

MRS. UNDERHILL: It is also costly, but as long as the advertiser wants to buy the time he can put on what he wants to do because the radio people have no dictate over what goes on that hour. We went into that in detail.

COMMISSIONER DRUMMOND: In this connection I might remind you of the opportunity you now have of



making concrete suggestions to the new Chairman of the Board of Broadcast Governors.

MRS. UNDERHILL: Oh, I am sorry.

COMMISSIONER DRUMMOND: This is a wonderful opportunity if you want to seize it.

There are one or two minor points. You have mentioned, I think twice, that people don't seem to realize that you can't get something for nothing?

MRS. UNDERHILL: Yes.

COMMISSIONER DRUMMOND: Do you not think it is a matter of actual mathematical correctness that while it is impossible for people generally to get something for nothing, it is quite possible for the occasional individual to get something for nothing?

MRS. UNDERHILL: If he does it with his own hands, sir, yes. If you are breeding cows, and put your own work into it, at the end of five years you have five thousand instead of one; but, it is only when you do it yourself.

COMMISSIONER DRUMMOND: I was thinking of the modern forms of promotion and advertising. Let us take the specific case of where a certain firm offers a very expensive prize, namely, a fur coat or a motor car, or something of that sort. Actually, somebody eventually receives this prize; isn't that correct?

MRS. UNDERHILL: Yes.

COMMISSIONER DRUMMOND: And that somebody gets that for virtually nothing; isn't that so?

MRS. UNDERHILL: No. That is all included



in the purchase price of your can of wax.

COMMISSIONER DRUMMOND: Yes, for people generally, but so far as that particular individual is concerned?

MRS. UNDERHILL: Yes, as far as that is concerned -- but, he still may have been paying for it every time he bought a can of wax.

COMMISSIONER DRUMMOND: Yes, but he would have to live for a long time to pay the full cost?

MRS. UNDERHILL: Yes.

COMMISSIONER DRUMMOND: It is because of this mathematical fact that, it seems to me, it is actually possible for this type of practice to actually exist.

MRS. UNDERHILL: I do not believe you can get something for nothing, and if that car is got, then the cost is written off to advertising and sales promotion, and eventually ---

COMMISSIONER DRUMMOND: I quite agree, but I am making this distinction between the individual and the group.

MRS. UNDERHILL: Yes.

COMMISSIONER DRUMMOND: And I am saying that if it were not for the fact that an individual -- that there is always the off chance that you or I may be the individual to win this prize, and that fact caters to our gambling instinct and causes us to participate in this thing -- accept this invitation, if you like?

MRS. UNDERHILL: Yes.

COMMISSIONER DRUMMOND: And, therefore,



permits those who issue the invitation to continue doing so?

MRS. UNDERHILL: Again, some of our advertising people are playing to our -- each one of us dreams of being a millionaire.

COMMISSIONER DRUMMOND: I think what we would all like to know is whether you have any further concrete suggestions as to how this sort of thing might actually be prevented. You suggested the slow, long-run educational method of informing people, and hoping for an improvement: is there anything further you think a Commission such as this might recommend?



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MRS. UNDERHILL: I mentioned that we have gone to our radio and TV station, realizing that the word "controls" is something that nobody likes; I would like to see controls placed on certain types of advertising, but that is most difficult, I do not know how that could be done. I think in the long run the educational process is our main way and, secondly, if we could have the co-operation of the citizens, the manufacturer, the processor on all boards, representation and understanding would reduce the price spread. Lastly, if the manufacturers or processors can be brought to realize what their responsibility is. I realize competition is the life of trade, perhaps that makes for advertising and for sales promotion, but it should also make for good value, and they should be impressed with their responsibility to give good value for merchandise, and for any product they sell. If thoughts could be continually directed to that source to make them aware of their responsibility, then certainly that is one thing you could do. Tomorrow I understand you will be seeing the Dominion Stores, or some of those groups, and when they present their prices and their facts, obviously their interest is in sales, but might they also not be interested in their responsibility to the Canadian citizen, and proud of what they are doing.

COMMISSIONER DRUMMOND: The other point I was going to ask you about was this matter of representation on boards, you have said that consumers

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should be on these boards?

MRS. UNDERHILL: Yes, well qualified people.

COMMISSIONER DRUMMOND: How much representation would you think would be needed on the Price Stabilization Board?

MRS. UNDERHILL: How many are there on it now?

COMMISSIONER DRUMMOND: There are 12 on the Advisory Board now.

MRS. UNDERHILL: Two more.

COMMISSIONER DRUMMOND: Two more representing consumers?

MRS. UNDERHILL: Two more very strong, level headed people, and if they present their statements and their thinking in the right manner, it will bear weight. Two or three more, two would do it. I am not trying to weigh anything in favour of anyone, but certainly there should be representation.

COMMISSIONER WALTON: All things being equal, two packages of the same product on the shelf, one with a gimmick and one without, would you not think that this educational program which you would like to see where consumers are informed be a simple effective way of impressing the manufacturer and your distributor? Just a simple action of buying or not buying this item?

MRS. UNDERHILL: Yes, one action would speak louder than many words.

COMMISSIONER WALTON: 700,000 women all buying one package would be much more effective than



all the words in the world, would they not?

MRS. UNDERHILL: I most assuredly agree but, on the other hand, women are human, citizens are human, and when advertising is pitched to attack the human side, the Cadillac car for my wife, etcetera.

COMMISSIONER KIDD: You would rather have them gamble on a bingo game than --

MRS. UNDERHILL: Certainly what you say is true, actions do speak louder than words, but this is how a woman, when she sits down with a group of other women, thinks, and that is what I am representing here today, the Council of Women.

THE CHAIRMAN: Mrs. Underhill, under your conclusions, the first paragraph you speak about the consumer's statistics, dissemination of consumer information, and you refer to the setting up of a dominion government department of consumer statistics and information. Can you think of any other means of accomplishing this same objective which might be more effective than another government department? Do you think this type of service should come from the dominion government?

MRS. UNDERHILL: I think it should come from the dominion government, I do not think it is the type of thing you can put out to enterprise. I also think it comes under our government's responsibility to citizens. We citizens have a responsibility to the government, but the government also has a responsibility to the citizen, and among the responsibilities is this. I think that the



government should be aware not only of the trends of agriculture and/or as I have stated here, the production of consumer goods, I think they have a responsibility to citizens to make them aware of what is available in their country and what might or could possibly happen -- I am not saying could possibly happen, but I think they have a responsibility to the people to let them know the facts.

THE CHAIRMAN: Supposing it was possible to have a separate independent organization to perform these same functions?

MRS. UNDERHILL: Who would pay for it, sir? That is very important.

THE CHAIRMAN: Supposing it was possible, this implies that it is adequately supported, an independent organization, would you see any preference in that type of approach rather than a federal government department?

MRS. UNDERHILL: I think that he who pays the bill calls the tune, and if a statistical dissemination centre is in business, it is in business to make money, and it is not in business to make money if it is supported or endowed. The right hand is going to watch the left if it is endowed by such and such a firm, then it could be careful on those products. It is only the dominion government that can be completely free of influence or prejudice.

THE CHAIRMAN: Really?

MRS. UNDERHILL: I hope I am speaking



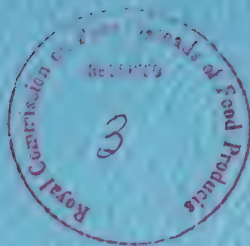
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idealistically, and I firmly think this because of that reason and because of the responsibility that the dominion government should do it.

THE CHAIRMAN: Thank you very much. We will now adjourn until 10 o'clock tomorrow morning, when we will receive the brief from the Co-operative Union of Canada.

--- The Commission adjourned at 4.50 to resume the following day at 10 a.m., Tuesday, November 18th, 1958.



Henry Watson

ROYAL COMMISSION

ON

PRICE SPREADS OF FOOD PRODUCTS

HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No.: 1 (1958-1959) 4th Session

DATE:

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ROYAL COMMISSION ON PRICE SPREADS
OF FOOD PRODUCTS

Proceedings before the Royal Com-
mission on Price Spreads of Food
Products resumed at 2.00 p.m. on
Wednesday, November 12th, 1958, at
Ottawa, Ontario

CHAIRMAN:

Dr. Andrew Stewart

COMMISSIONERS:

Mrs. Dorothy Walton
Mr. J. Howard MacKichan
Mr. Romeo Martin
Mr. W. Malcolm Drummond
Mr. Cleve Kidd
Mr. Bernard Couvrette

Secretary

John Dawson

Assistant Secretary

A. A. Caron



Tuesday,
November 18, 1958.

Submission of
THE CO-OPERATIVE UNION OF CANADA

Appearances:

Mr. R.S. Staples	President
Mr. Alexander Laidlaw	National Secretary

THE CHAIRMAN: The brief this morning is from the Co-operative Union of Canada presented by Mr. R.S. Staples, the President and Mr. Laidlaw is with you.

MR. STAPLES: Yes, Mr. Chairman. If you do not mind we would like to work together on the presentation of this brief.

THE CHAIRMAN: Yes, whatever you wish.

MR. STAPLES: We welcome this opportunity of appearing before the Royal Commission on Price Spreads of Food Products on behalf of the Co-operative Union of Canada. The widening spread between prices received by the primary producer of food products and the prices paid by the ultimate consumer is of great concern to us in the co-operative movement. Co-operatives of both producers and consumers have always been dedicated to the task of holding that spread within reasonable bounds.



That has been well established across the country. I would like to say that we are backed today by quite a number of co-operatives in the Ontario region, both Ontario and Quebec, and if a few people come in late, we apologize for them in advance, because driving conditions are not very good today.

Our organization was started in 1909 by a small number of purchasing co-operatives in the province of Ontario, but many changes have taken place through the years and now the Co-operative Union of Canada is a federation of provincial co-operative unions, though there is provision for direct membership for co-operatives which carry on business in a number of provinces. Most co-operatives in Quebec and other French-speaking parts of Canada are represented by Le Conseil Canadien de la Cooperation, with headquarters in the City of Quebec.

The report for 1957 of the Economics Division of the Canada Department of Agriculture states that, without including wholesale organizations, some 2,000 marketing and purchasing co-operatives in Canada had a turnover of more than \$1,125,000,000 while serving a membership of more than 1,600,000. Together the C.U.C. and the C.C.C. represent the majority of these co-operatives.

To an unusual extent compared with other countries, all types of co-operatives in Canada are found in the one family of organizations. In



this country there is not an agricultural co-operative movement and a consumer co-operative movement; there is just one co-operative movement. We think this is a point of great strength. Furthermore, Canada's co-operative movement is strictly non-partisan as regards political parties.

One of the best definitions of co-operative enterprise is found in chapter 3 of the "Report of the Enquiry on Co-operative Enterprise in Europe, 1937" issued by the Government of the U.S.A. It reads as follows:

"A co-operative enterprise is one which belongs to the people who use its services, the control of which rests equally with all the members, and the gains of which are distributed to the members in proportion to the use they make of its services."

In practice, co-operatives follow certain well-accepted principles, of which the following are fundamental: Open membership; one member, one vote; limited return on capital; and surplus distributed in proportion to patronage. Methods of operation ordinarily include provision for promotional or educational work, cash trading is favoured, and goods are handled at regular market prices.

If the quoted definition has a weakness, it lies in its failure to recognize the social value which the members find in co-operative



participation. Since in a co-operative the users are the owners, people are involved in the decision-making processes. They have opportunity to learn how to play their part in a democratic enterprise and at the same time learn something of the realities of business. It is no exaggeration to state that people who do not join in co-operatives can never learn to take responsibility for some of the economic processes which are vital to successful living, in other words, we learn by doing.

Co-operatives do not exist to make money. The co-operative member invests in his organization, not for the purpose of obtaining a return on his investment, but primarily for the purpose of obtaining a service at reasonable and proper cost. The farmer or fisherman joins a marketing co-operative in order to market his product more efficiently than he could individually. The member of a purchasing co-operative has combined with others in order to obtain the benefits of a group purchasing service.

Because we frequently find that the terms "producer co-operative" and "consumer co-operative" are misleading when used in Canada, in this brief we shall use instead the terms "marketing co-operative" and "purchasing co-operative". This clarification of terminology is needed because many co-operatives in rural Canada, the members of which are primary producers as farmers or fishermen, buy and distribute consumer goods as well as agricultural



and fishing supplies.

Some observers who take a superficial or casual view of co-operatives come to the conclusion that there is not much difference between them and ordinary business. Co-operatives buy and sell; they have inventories; they own real assets; they hire and pay employees. A co-operative store may look the same as another alongside it or across the street, but this conclusion overlooks one fact of basic importance: Co-operatives are fundamentally different because they exist for a different purpose.

Since this Royal Commission is concerned with price spreads of food products, we should like to illustrate this point of difference by a practical example from the food industry. For this example, we go to the meat-packing companies. We shall be thoroughly pragmatic, seeking an answer to only one question: Does the meat-packing industry, as a modern distribution system, fulfil the function which society requires? We are not concerned here with the technical efficiency of the industry. As far as we know, Canada Packers or Swifts or Burns and the rest may be well operated, and anyhow we are in no position to judge this. Our point can be stated very simply: Any ordinary company in the business of meat-packing was established by people as investors who wanted to obtain a satisfactory return on their investment. If the manager of that company is able to show a satisfactory return on investment, he is a successful manager. If



he fails over a period of time to show a satisfactory return, some other person will be made manager in his place. If a succession of managers fail to show a satisfactory return, the company itself will disappear, simply because the investors will tend to favour some other enterprise in which they can anticipate a good return on their investment.

To succeed in this endeavour the company will leave no stone unturned. It will equip itself with well-trained and thoroughly experienced buyers to make certain that the livestock is purchased at the lowest possible price. It will try to find the means of reaching back to the individual producer in order to minimize his bargaining power. On the other hand, the same company will employ an efficient and well-directed sales staff in order to make certain that they obtain for their product all that the traffic will bear. There is nothing mysterious or new about this. It is the way profit business operates. How else could it operate? Furthermore, history gives proof that the company will tend to combine with others, either through amalgamation or agreement, in order to lessen the effect which competition might have on the level of return on investment.

The result of this system of distribution on society as a whole can be quite devastating. The interest of the investor as middleman is to keep the price to the producer at the lowest possible level, and the price to the consumer at the highest



possible level. Middleman companies are not in business for charity; they are in business for the money to be made. In other words, the effect is to widen the price spread and not to narrow it. If society is really interested in narrowing spreads, rather than in widening them, it will eventually establish organizations designed to narrow spreads; profit business cannot be expected to bring about a narrowing because it was set up for a different purpose, which has quite the opposite effect. The wide gap between producer and consumer today is not surprizing; it is only the logic of our dominant way of business.

There is another aspect of the high cost of distribution which requires consideration. Middlemen in the food industry can be inefficient and wasteful. I do not say they always are, yet feel that people will not suffer greatly. This seeming anachronism is possible because it has been well established that welfare programmes will take up the slack. If prices are so high that many consumers cannot buy nutritious food, it is pretty certain that sooner or later government will come to their aid in some way. Or if prices to producers are so low that many are in distress, the government will offer price supports or deficiency payments to provide the necessary income. Such programmes are now common in many countries. Those who understand the co-operative way of business reduce the problem of abnormal price spreads



to this plain question: Why should society tolerate a distribution system which is tied to profit and in which the welfare of producer or consumer is a secondary consideration? Our contention is that the whole system of food distribution should be owned by producers and consumers co-operatively. We look to the day when producers and consumers will meet and establish prices through their co-operatives and thus eliminate the middleman altogether in the distributive chain.

Since the Commission has been established to study price spreads in food products, it is interested in both marketing co-operatives and purchasing co-operatives. The marketing of farm products is by far the largest part of the co-operative movement in Canada. In any recent year about one-third of the total sales of all farm products in this country has been carried on by co-operatives. The percentages vary widely from one product to another; for example, more than half the grain, four-fifths of the wool, one-quarter of the dairy products and 15 per cent of the livestock is marketed co-operatively, those are round figures.

Purchasing co-operatives in Canada are not so well developed in terms of percentage of goods handled and this is particularly true of consumer goods. Less than 5 per cent of total sales of grocery and general stores passes through co-operatives. It is worth noting, however, that this volume of business is not evenly distributed across the country.



Speaking generally, it is the larger centres of population which tend to be most deficient in purchasing co-operatives. However, it is true that in some widely separated areas co-operative stores are a significant factor in the community.

It is interesting to speculate on the reasons why the co-operative purchasing of food and other household supplies have developed satisfactorily in some parts of Canada and not in others. It would require an extensive research project to establish the reasons with certainty. It was in Nova Scotia that purchasing co-operatives first developed in Canada. These resulted from the knowledge which immigrants from Great Britain had of the co-operative movement and their feeling of insecurity in the new land where co-operatives did not exist. The same thing is true of Northern Ontario, but the co-operative leadership there came from Finland rather than Great Britain. On the other hand, in the Prairie provinces the co-operative purchasing of consumer goods developed from the fact that the specialized grain farmer did not find it easy or economical to grow food products for his family. In the Atlantic provinces, purchasing co-operatives have grown considerably in the last 25 years in the general co-operative development of that region, where especially in the rural areas a number of co-operatives developed both marketing and purchasing functions to replace the merchants or companies which formerly provided the



dual service of marketing primary products and supplying goods of all kinds.

There are two recent developments in Canada to which we should like particularly to direct the attention of the Commission. The first is the relation between co-operatives and marketing boards. Increasingly it appears that primary producers are turning to boards established under legislation, with authority over the marketing of an entire product in a given area. The boards may organize a co-operative as the sole agent to do the actual marketing. The full implications of the trend in this direction are not yet apparent, but the situation is being studied to discover how board marketing can complement co-operative marketing without sacrificing the principles and true spirit that underlie co-operative organization.

The second is the recent development of a number of highly successful co-op food stores in Canada, after some years of indifference and pessimism about urban co-operatives because of the phenomenal growth of the chain stores. A pattern has been established that proves the value of co-operatives for urban people in this country, as has long been recognized in Europe, and now there is a promising network of co-op food stores or super-markets to be found. They are operating successfully in several urban centres in all provinces, and the one completed within the last few months in the city of Winnipeg compares with the most modern food



stores in Canada. We are confident that there is a bright future for large urban co-operatives in this country.

In order to establish the proper perspective, we should say a word about the co-operative movement in other countries. Both the Co-operative Union of Canada and Le Conseil Canadien de la Cooperation are members of the International Co-operative Alliance. The I.C.A. was established in 1895. Its headquarters are in London, England. It has 86 associations of co-operatives in its membership, covering 46 countries. Membership totals about 132 million families in the world. It is interesting to note that one of the major publications of the I.C.A. is Cartel, described as a "quarterly review of monopoly developments and consumer protection". It is widely recognized as a leading journal in the field of consumer studies, indicating the interest of the co-operative movement in the problem which this Commission is investigating.

According to the I.C.A., Canada stands eighth in percentage of co-operative memberships in proportion to the total population.

The Canadian percentage is about 18.2 per cent.

Israel and Finland lead with about 40 per cent each; Denmark has 31 per cent and Great Britain has 24 per cent. The U.S.A. has about 10 per cent. The figures include mercantile and credit co-operatives but not insurance.



Incidentally, these figures are useful for the basis of per cent only, because there is so much overlapping in memberships. We could not calculate the number of memberships because there is a great deal of overlapping.

The operation of consumer co-operatives in Great Britain will be of particular interest here. The British co-operatives have been in operation for more than a century, and we believe that their experience may provide some indication of the size of Canada's co-operative movement in the future.

In Great Britain there are nearly 1,000 co-operative societies with about 31,000 retail shops, serving over 12 million members. Sixteen of these societies have over a hundred thousand members each and one, the London Society, has over a million and a quarter members. Membership increases in total at the rate of more than a quarter million a year. Sales are approaching a billion pounds sterling, and the total was only 23 million pounds short of that figure in 1957. The increase of 1957 over 1956 was nearly 68 million pounds. Taking all societies together, the surplus in 1957 amounted to 27.73 per cent of share capital or, after providing for interest on share capital, 6.37 per cent of retail sales, a slight increase over the previous year. A total of 52 million pounds was paid to members in the form of patronage dividends, reducing price spreads by this amount. The average dividend rate was a little more than 5 per cent.



Much of the strength of the British co-operatives rests in their own manufacturing plants, some 250 of them, and the largest wholesaling system in the country. The movement as a whole is the largest business organization next to government.

The success and achievement of co-operatives in the Scandinavian countries are universally recognized. A survey sponsored by the Ministries of Social Welfare of five Scandinavian countries and reported under the title Freedom and Welfare, published in 1954, has this to say on the problem which the Commission is studying:

"Co-operators and several outside observers maintain that by improving quality and lowering prices the consumers' societies have contributed significantly to the rise in living standards within the last couple of generations and that the agricultural co-operatives must be given main credit for the rapid development of agricultural production during this period as well as for the impressive increase in the standard of living of the small and middle-size farmers who dominate northern agriculture."

"... mention should be made of the co-operative contribution to rationalization. By improved planning and operation, both producers' and consumers' co-operatives have continuously striven to reduce costs of processing, transportation, and distribution".



In preparation of this brief we have had basic assumptions in mind which it is well to establish clearly though briefly.

1. We believe that the smallest possible spread between prices received by producers and prices paid by consumers is in the public interest. In this, we recognize, of course, that certain in-between services are necessary and must be paid for, but we believe there is no justification for loading the food industry with unnecessary costs or charges for undesirable services.

2. We believe that commerce should be carried on in the interest of people. This is particularly true of a vital commodity like food. The entire food industry should be geared to the task of providing people, all people, with a high level of nutrition. In order to attain this objective, of course, it is necessary to provide producers and all others who do necessary work with adequate remuneration.

3. We believe that people should be relied upon to the greatest possible extent to take responsibility for their own affairs. In the long run people will demand the right to serve themselves. Paternalism on the part of either big government or big business should be no part of permanent policy.

It seems hardly necessary to plead the cause of marketing co-operatives in Canada. For many years they have been a part of the rural scene which many farmers simply take for granted, in much



the same way as thousands of urban workers value their labour unions as an essential part of life. To many rural people, marketing co-operatives are simply a necessary extension of the farm business. In the last 25 years fishermen too have begun to rely more and more on marketing co-operatives, and at present there are fishermen's co-operatives in all provinces in Canada but two, Alberta and Manitoba. In 1957 the volume of co-operative marketing of agricultural products in Canada was about \$825 millions, and the figure for fisheries products was about \$17 millions. Ten years ago the corresponding figures were about \$500 millions and \$10 millions, respectively. We can confidently look for a steady increase in this type of co-operative in Canada.

It is obvious how marketing co-operatives tend to close the gap between producers and consumers. Let us take an example from the Maritime provinces, by reviewing the history of the sale of lambs in that part of Canada. Until about 35 years ago, this business was handled entirely by merchants and drovers buying from farmers. When marketing co-operatives were organized, the first saving was made in assembling costs. One trucking service owned by the farmers replaced several competing and costly services owned by drovers. Next there was the effect of grading; the producer was paid according to quality or grade. Methods of handling were improved by the farmers. Extravagant middlemen's profits were eliminated altogether. The end result



was that the farmer received a better price than he ever knew before, sometimes double what he received under the old system. Co-operative marketing went a long way to close the gap separating the farmer from the consumer. The story is much the same, for example, in the case of lobsters, a valuable food product of the Atlantic provinces. The notorious spread existing in former days was very considerably narrowed by the co-operative action of the fishermen, and the effect was felt throughout the whole industry, whether the fishermen were organized or not.

This brings us to an important point: That the saving effected for the actual members of a marketing co-operative represents only a small part of the full influence on the price spread. It is well known that only a small percentage of producers organized co-operatively can set the price level for a whole region, or for a whole industry. We are very conscious in the co-operative movement of the "umbrella factor" in the marketing of agricultural and fisheries products, how a relatively small number of producers in a co-operative can establish a fair market price for many outside the organization, some of whom indeed may not even be aware of its existence. The question is sometimes asked why all farmers or fishermen do not join a certain co-operative that has such a good record for obtaining a better price for the producers. The answer is that they are getting at least some



of the advantages of the organization even though they remain outside the membership.

It is difficult to assemble reliable figures that show the total rebates or final payments made to members and patrons of all marketing co-operatives in Canada in a year, but by taking the figures for just one organization over a period of time we get a good idea of the impact of these co-operatives on farm income. The example we take is the Saskatchewan Wheat Pool. In the past 33 years Wheat Pool members have invested a total of about \$25 millions in their co-operative, chiefly through elevator deductions on grain handled; in the same period they have received back about \$46 millions in patronage earnings; and at the same time they have built up assets of almost \$60 millions in the plants, elevators, terminals and equipment which they own today.

MR. LAIDIAW: But, in a study of price spreads, we are well aware that the case for co-operatives is incomplete as long as we argue for the marketing side alone. Unilateral action by farmers or fishermen, through a marketing organization which will secure a better return for them as producers, may or may not have the effect of narrowing the price spread. If the consumers are unorganized, the middleman may simply pass the enhanced price, and indeed more, on to the consumer. The final result may be a widening of the price spread. Evidence pointing to this has been given to the Commission at



a previous hearing. It is obvious that only action by both producers and consumers, working towards some equitable point between, can bring about a permanent narrowing of the price gap.

There is a second reason why, in the face of all the successful marketing co-operatives in Canada, there is still this widening gap between producers and consumers within the country. A large proportion of the products from marketing co-operatives goes to the export trade; for example, wheat is by far the leading product sold through co-operatives. Fish from co-operatives is very largely sold outside the country. There has been only limited opportunity for organized producers in Canada to sell to organized consumers.

This, then, would be our ideal: To have producers and consumers, through their co-operatives, jointly work to eliminate the mounting costs involved in waste, over-processing, flamboyant advertising, profiteering and the other factors causing unnecessary spread.

A standard textbook of our movement (Co-operation, by Hall and Watkins, published by the Co-operative Union, Manchester, England) has this to say on the setting of just prices:

"Co-operative producers and consumers will have to agree on what is a fair price. It is, of course, possible to take the view that they never will agree. Consumers desire



"goods as cheap as they can get them; farmers want the utmost they can get for their produce. The side with the greater bargaining advantage shall exploit the other. Such a view is more pessimistic than the facts warrant. It is not true that consumers desire cheapness regardless of the producer's losses or that producers relentlessly exact the highest price. Co-operative organization, because of the economic education it affords, teaches farmers to desire, above all, steady prices, for fluctuations are rarely advantageous in the long run. Such has been the state of the markets in recent years, that the problem of farmers all over the world has been not to grow rich, but to secure a decent livelihood. Consumers are usually willing to pay prices which they know represent real costs and have no wish to profit by cheapness if that entails sweated labour. The important condition for agreeing on fair price is that both sides shall know clearly and certainly what the real costs are when they come to discuss prices. Modern cost accounting and statistics should go a long way toward settling the question of fair prices."

Building a system in which producers and consumers can meet co-operatively at some point between and agree on conditions of sale and price is not so



hopeless as we might imagine. In fact, once the appropriate co-operative organizations of producers and consumers are well established, it is comparatively easy. In Canada, we have an example in the distribution of Co-op flour. It is manufactured in a plant in Saskatoon owned by the Saskatchewan Wheat Pool, and its distribution to co-op stores is handled by Interprovincial Co-operatives Limited through the various co-operative wholesales across the country. As far as we can see, the total process is controlled entirely by producers and consumers. In the distribution of this flour, the co-operators in Canada have achieved three things that have a bearing on the price spread:

- 1) A yardstick now exists to act as a regulatory force in the market.
- 2) The quality of the product is assured by the presence of the consumer interest, and indirectly this means a great deal in respect to price.
- 3) All profits or savings made in the handling of flour are returned to those who created them.

Purchasing Co-operatives: It is one of the basic teachings of the co-operative movement that the economic system which puts the distribution of essential goods, among them food products, under the control of a relatively small group, who then have power to manipulate the conditions of trade, is fundamentally wrong. When consumers allowed



traders to set up shop, write their own price tags, and decide the conditions of commerce, they surrendered fundamental rights which they should never have given up. This is what our noted Canadian philosopher of co-operation, Dr. M.M. Coady, refers to as "The great default of the people". In this default, he says, "they failed to claim control of their consumer business and of their own money, and allowed an error to creep into the foundation of our economic structure." The only way the people can regain economic freedom and make up for the great default of the past is to make up their minds to go into business for themselves and provide their consumer needs co-operatively. A great pioneer of co-operatives in England in the last century, Dr. William King, stated it thus: "Your greatest weapon is your purchasing power, provided it is organized; unorganized, it is a weapon that is used to keep you in subjection." The unorganized consumers in the market have little to say about how they are to be served, what services are to be provided, how much is to be spent on advertising, the earnings to be paid on capital, or where the line is to be drawn on profits from unproductive or wasteful services or personnel. In a world filled with organization, it is folly for the consumers to remain unorganized. Co-operatives provide the tested and proven way for consumers to organize to protect the consumer's interest.

In the evidence already placed before the Commission, there are several references to the



fact that the consumer interest in Canada is not well organized. In the light of history, this is not surprising. The primary need in new countries like those of North America is for production, and so the problems of production have received closest attention. Trade and professional associations exist to represent the members as producers. Labour unions mainly concern themselves with the welfare of the member as a wage-earning producer. Farmers have strong vocational organizations. The most influential co-operatives in this country up till now have been the marketing co-operatives.

But this is changing now. Technological progress has meant that the age of plenty is at hand. For the first time in human history we see the possibility of having enough to go around. As the concept of plenty occupies our minds more, as it is bound to in the future, many changes will take place. It will become necessary to take the consumer more fully into account. Increasingly it will not be a matter of producing some product and then distributing it through a "hard sell" program. Such methods can succeed under conditions of relative scarcity. In the age of plenty, the consumer will come into his own and it will be necessary, more and more, to involve him in decisions which set the pattern for production. Co-operative-type organizations can have a very important role to play in such a development.



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It is wrongly assumed by many that the competitive system, by its very nature, exerts an inexorable pressure in business, with the result that price spreads tend to be kept very narrow. But the obvious fact is that the competitive system as practised in ordinary business does not protect consumers in this way. If it does, why do we have unnecessary duplication of brands of the same food product? Why do we have over-refining and over-processing of foods that increase the cost many times? Why does business go to such extreme lengths in wasteful advertising, expensive built-in services and unnecessary frills?

Moreover, it is wrong to assume, as many do, that competition in present-day business is constantly shaving profits down to a very thin slice of the consumer's dollar. A recent issue of "The Financial Post" (November 1, 1958) shows the largest food companies in Canada with increased profits during the past year, although the economy of the country went into recession. One company (v. page 52) increased its sales by 13.9 per cent during the past year, but its profits by 24.9 per cent. A feature article in the same issue (page 56) says: "With a 3.8 per cent profit increase in the first quarter of '58, food processors stood alone in performance".

One of the most exploited branches of the food industry today is in cereals or breakfast foods. Here we have a prime example of how far over-processing, refining, packaging, and advertising can go to extend the gap between producer and consumer. We might, for

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rough figuring, take $2\frac{1}{2}$ cents per pound as the basic price to the farmer for wheat. At the other end of the line the ultimate product which represents refining and packaging taken to the extreme is the set of ten small boxes of various cereals selling for about 40 cents. Each small box contains about one ounce, which at 4 cents works out to 64 cents per pound, or a spread which gives the farmer about 4 cents of the consumer's dollar. The remaining 96 cents has gone for something else than food. And the irony of it all is that, even at the terrible price which the consumer has paid for the services between, he receives something much less in terms of food value than what the farmer produced from the good earth. Surely here we have a situation that consumers should do something about. A cooperative is the answer for them. Proof is offered in what has been done by the cooperatives in Canada with the breakfast cereal CO-OP Wheatlets, to take one example. They cost just half the price of the comparable well-advertised cereal which housewives know so well in Canada and U.S.A.

It is clear that the consumer is victimized today by the unnecessary duplication of many brands and competing lines of food products which are essentially the same. The CO-OP label does something about this vexing problem in a practical and organized way. It simply selects a high quality article at a fair price, and the shopper has only to pick up the CO-OP brand to be reasonably assured that she is getting value for her money. The cost of carrying



heavy inventories of ten or so brands, when one will do, is thus avoided. The only distinction necessary is made by the colours of red, blue and green, indicating different grades of the product. This is one example of how consumers can act co-operatively to protect themselves.

Even though co-operatives in consumer goods are not highly developed in Canada, we still have some success stories to tell. One of the oldest in this country is the British-Canadian Co-operative Society in Cape Breton. Between organization in 1906 and the year 1957, it returned in patronage savings the sum of over \$5,300,000 to its members, the majority of them coal miners who found in their co-operative a form of security and protection which they valued highly through both good and bad years. It is true that the British-Canadian today deals in practically all consumer goods, in addition to foods, needed by the average family, but for many years the business was mainly in foods, including a fluid milk service and a bakery (which for many years has sold bread for one cent a loaf below the regular price.) It will be of special interest to the Commissioners to hear that this organization of consumers pays farmers 20 cents per 100 pounds above the price set by the Milk Board, and yet shows a surplus from its dairy operations to return to members. We could hardly wish for a better example of narrowing the price spread. The rate of patronage dividend for the last period was $5\frac{1}{2}$ per cent.

But patronage dividends are only part of the



story of this co-operative. The first quarterly report of October, 1906 stated: "The share capital now amounts to \$810."

We quote that figure to indicate how little money is invested in Co-operatives, and this is typical of Co-operatives -- how little was originally invested by the members.

The report of May, 1957 showed assets of slightly over one million dollars, of which about \$800,000 was owned directly as capital (not as reserve) by the individual members. Now, we know that during these years, many of them depression years in the coal industry, the miners had no money to invest in business, so we can only conclude that this sum was accumulated by the co-operative for the members, and it is gradually withdrawn by them as they become older. It is thus a saving to them and indirectly a narrowing of the price spread.

Education and self-discipline in co-operation: In presenting the case for co-operatives, we do not wish to place the entire blame for the present situation in food distribution on old-line business and the competitive system. The truth is that the consumer himself is much to blame; he needs the self-discipline of the co-operative way to protect him from exorbitant costs and wasteful methods. One writer on Co-operation, Maurice Colombain of ILO, puts it this way: "The co-operative movement frees its members not only from usurers and profiteers, but also from themselves and their bad habits." A good co-operative society

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can be a restraining force on our human foibles. It can teach us that we cannot get something for nothing, that extravagant advertising and gimmicks like trading stamps have to be charged to the food dollar, and that every unnecessary service between producer and consumer has to be paid for somewhere along the line, even though it can be temporarily hidden somewhere so that it appears that someone else is paying for it. That is why, for example, we insist in co-operative business that trading should be for cash, that credit trading costs something extra, and that the cost of credit should not be hidden or must not be shifted to those who pay cash. The trouble with so much of our modern business, including the food business, is that it tries to convince the consumer that black is white, and through costly advertising it tends to cater to and massage our human failings, our pride or our laziness, instead of exposing and eradicating them. Yes, consumers need co-operatives as protection against themselves.

Moreover, in the complex market-place of today, it is quite unrealistic to expect the individual housewife to gain expert knowledge of all the multitude of products with which she is confronted when doing the family shopping. The necessary research and calculation can only be done through some sort of organization; and this organization must, if it is to serve the consumer well, represent the consumer above all else. A co-operative member can transfer to the group collectively the responsibility for making many of the necessary decisions. In other words the problems of the

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shopper are half solved when she enters her co-operative store. We think that this fundamental characteristic of purchasing co-operatives should be of great importance to the Commission in its deliberations.

But the basis of any self-discipline of co-operative purchasing must be education. Dependence on education has a long tradition in the movement, to the point that a co-operative organization is in a very real way an educational institution. If a co-operative is a good one and the member is loyal, he is being constantly educated in the ordinary and everyday matters involved in membership. Thus a marketing co-operative is constantly educating members about better methods of assembling products. Likewise, the co-operative which distributes consumer goods can be a centre of education in matters of quality and cost, and thus act as a restraining force to keep the price spread within reasonable limits.

A feature of the co-operative movement that deserves particular attention in this investigation is the extent to which the co-operatives involve housewives and women generally in decisions about consumer goods, including food products. This is of prime importance, for unless through consumer education women take responsibility for putting some law and order into food distribution, there is not much hope for a better system. Women who have responsibility for spending the food dollar must be well supplied with the facts and information. They must have access to the costs involved in packaging, processing, extra services and



advertising. Furthermore, instead of being lulled by radio and TV broadcasters into accepting the cereal which will snap, crackle and pop, she must be told the actual food values contained in what she buys. The mother going to the market today needs constant advice and guidance in order to make wiser use of the family food dollar.

Co-ops do something about this. Wherever co-operatives have become well established, various organizations of women take over this field of consumer education, and the results have been quite remarkable, for example, in the co-operatives in England, Sweden and France. In Sweden especially the co-operatives are the watch-dogs of consumer goods, to the extent that it is virtually impossible for consumers to be victimized or exploited in their everyday purchasing of essential goods. The co-ops are continually investigating, studying, gathering data, comparing values. The interest of the consumers is guarded by themselves in an organized way. The whole field of consumer control is covered by the co-ops. Food laboratories and testing kitchens are maintained; research is carried on, so that science is always at work for the consumer. Centres of consumer education are conducted for the housewife. Thus the Swedish co-ops have accepted in a very effective way the responsibility for protecting the consumer interest, and in the distribution of food the co-ops in Sweden are generally regarded as the pace-setters of the nation. The final effect on the price spread must, of course,



be incalculable, since the agency serving the consumers has no other axe to grind except the discovery and dissemination of truth. Here in Canada, it should be noted, the Women's Co-operative Guild in Saskatchewan is doing something worthwhile in this field and has proved how co-ops can involve women in the solution of this problem of consumer education for the housewife.

I think, in fairness, we should mention that other provinces, although not too many, have the same thing as they have in Saskatchewan.

This emphasis on education brings us back to a fundamental consideration stated at the beginning: that the true nature of a co-operative must always be kept in mind. A co-operative represents something that people do, not something that is done for them, or to them, by somebody else. It is not a question of what co-operatives can do about price spreads, but rather to what extent people, both producers and consumers, want to use co-operative methods to control price spreads. Co-operatives are the last chance people have to defend themselves if they do not want to see all food distribution given over eventually to state control to protect both producers and consumers from the abnormal price spreads of today.

Conclusions: Co-operatives are in the public interest and should be encouraged. We think that the record of co-operative achievement in Canada and elsewhere amply supports this statement. Whenever the needs of Canadian people are thoroughly studied, the benefits of co-operatives are likely to receive



favourable mention. We cite two examples of this.

(1) The report of the Royal Commission on Price Spreads submitted in 1935 suggests at several points that co-operative development should be encouraged. Here is one quotation: "It is our opinion that further development of consumer co-operatives in Canada would be of general benefit in producing a restraining influence on the practices of other merchandising organizations and assisting in consumer education which we feel is most necessary. The informed consumer is in himself the most valuable and effective check on excessive prices and poor quality."

(2) The Royal Commission which investigated the fisheries in the Maritime Provinces and the Magdalen Islands, submitting its report in 1928, had this to say: "If the shore fishing industry is to succeed, co-operation among fishermen is absolutely and immediately essential. Co-operation is no longer an experiment . . . We recommend therefore, that the establishment of co-operative organizations of fishermen be assisted by the Department as soon as possible . . . If we may judge from the success of similar undertakings in Canada, we feel that in a very short time these suggested co-operative organizations will be largely self-supporting and would require a minimum of Government assistance."

I may inject here the observation there, Mr. Chairman and Commissioners, that the prediction which was made by the Royal Commission in 1928 has come to pass. These co-operatives have become largely self-



supporting and the business organizations do not any longer receive any direct aid from government.

In some branches co-operative growth in Canada has been rapid; marketing, credit and insurance could be mentioned in this category. In other branches, progress is steady, but not remarkable. However, the present figures do not tell the whole story. Co-operatives are now learning to co-ordinate their efforts and pool their strength to a much greater extent than heretofore. This will mean that programmes for training of staff, for the education of members, for financing expansion and for carrying on necessary research, can be made increasingly effective.

At various times and places in Canada, governments have initiated or encouraged co-operative development. Co-operators are grateful for this, but we shall not take time to elaborate here. We would add, however, that though government assistance has been vital to certain co-operatives at some point in their history, by and large the Canadian co-operative movement is not dependent on government, except for the maintenance of an environment in which co-operatives can live and grow in a healthy way.

A word of caution is in order on this point. It is our opinion that there are no short-cuts to sound co-operative development. The requirements are education and experience, for which there are no substitutes. A co-operative is like a plant. Care may be taken to have good seed of a proper strain; the soil

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can be well prepared; protection can be given from early frost; fertilizer can be applied; but, like any other organism, each co-operative must sooner or later learn to rely on its own resources. No other conception of co-operative development should be entertained.

But when we mention the need of maintenance of a proper environment, we open up a broad field. Under modern conditions, government policies to a great extent set the pattern of a nation's economic development. Governments shape the economy through policy decisions which are very wide in scope; taxes and tariffs come readily to mind as outstanding examples of this. Governments in modern times have surrounded themselves with a whole host of subsidiaries and agencies which affect every corner of our lives; the Canadian Broadcasting Corporation, the Board of Transport Commissioners, the Bank of Canada, and Central Mortgage and Housing Corporation are examples. To state our thoughts in other terms, government is never reluctant to invade even the most vital areas of the economy when convinced that such intervention is in the public interest. We shall mention only one example of this. If it had not been for the work of the experimental farms and the promotion of improved methods of agriculture by governments, farming in Canada would today be very different from what it is.

A co-operative differs in important respects from a business organized for profit. For instance, since return on investment is limited, co-operatives tend to have more difficulty in accumulating the



necessary capital. Not only is the return on co-operative investment fixed, but co-operative members are unlikely to be those who have large amounts for investment. Furthermore, the training of management is a greater problem; the manager of a co-operative has all the technical problems familiar to his opposite member in profit business, but in addition has the problems associated with carrying on his work within a democratic framework.

For these and other reasons, we feel quite justified in suggesting that in all its policy decisions government should be mindful of the peculiar needs of the co-operative movement; and we think that the Royal Commission on Price Spreads will perform a great service for the people of Canada if it keeps this point in mind when drafting its report.

Summary: Since this is the final brief to be presented by the co-operative movement, we shall attempt to summarize the main points which have been made to the Commission in briefs by co-operative organizations:

1. Participation in co-operatives will develop a more responsible body of citizens.
2. Co-operatives reduce price spreads through direct action, by the payment of patronage dividends in purchasing co-operatives or through final payments in marketing co-operatives.
3. A large number of marketing co-operatives and a smaller number of purchasing co-operatives in Canada have a long record of patronage dividends or savings to members.
4. The existence of a co-operative often



tends to reduce price spreads generally; that is, the price level for all producers has risen, or the level of prices to consumers has fallen, because of the operation of a co-operative.

5. Consumer co-operatives are the ultimate in organization of the consumer interest.

6. Direct producer to consumer co-operation, that is the assumption by co-operatives of all middleman functions, the organized producer selling directly to the organized consumer, holds great promise for the future.

7. Because co-operatives have a different purpose, it is possible for them to reduce certain middleman costs, such as excessive advertising, multiplicity of brands, financing, or gimmicks.

8. Co-operatives tend to improve quality. This applies to both marketing and purchasing co-operatives. In a marketing co-operative, grading is more likely to be understood and enforced if undertaken by the producers through their own associations. In a purchasing co-operative, no one has anything to gain by offering goods of inferior quality. An improvement in quality is equivalent to a reduction in price spread, other things being equal.

9. Co-operatives are not monopolistic. The membership is open to anyone who can use the services offered.

10. The trend of the past decade proves that ordinary profit business, by its very nature, makes for ever wider price spreads; co-operatives provide people



with the only alternative, short of state intervention, to bring price spreads under control.

Recommendations: It is not our intention to range widely over the whole field of interest of the Royal Commission on Price Spreads of Food Products. We shall confine ourselves to two areas: consumer education and co-operative development.

(1) Consumer education: We recommend that a broad programme of consumer education be undertaken immediately in Canada for the purpose of providing the purchaser of food and household supplies with authentic information concerning the true value of products offered. To illustrate this recommendation, we suggest that it might be established through a national programme representing the consumer interest of the nation. This programme would be the main work of an association to be established by interested individuals, organizations and groups, e.g. labour unions, farmers' organizations, women's organizations, co-operatives, consumer associations. The project would be under the general direction of a board of directors representing the member organizations. Finances would be provided by these member organizations, matched dollar for dollar by a grant from the federal treasury. The project would involve a large amount of research work, much of which it would not be necessary for the association itself to perform; for example, the National Research Council could be expected to co-operate fully. The association would be provided with regular periods on the networks of the CBC for



both radio and TV programmes. The association would publish a small news bulletin at regular intervals which, it is hoped, would be copied by newspapers and periodicals having wide circulation. As purchasing co-operatives develop in the future, they would be expected to take over a considerable part of the work of the informal association.

(2) Co-operatives: To provide an environment in which the co-operative movement in Canada may grow unhampered:

1. We recommend that a Co-operative Act be passed by the Federal Government under which co-operatives doing business or intending to do business in more than one province could be incorporated. (Attempts on the part of the co-operative movement to obtain such legislation have a history of more than fifty years.)

2. We recommend that Section 75(3) of the Income Tax Act be repealed, as being unfair to co-operatives. We will explain that further, if you wish: it is the section of the Income Tax Act which prevents a co-operative from distributing all its surplus to members.

3. We recommend that the Federal Government, the provincial governments and the co-operative movement in Canada should together study the financing of co-operatives in Canada and develop some acceptable plan which would help to compensate the co-operatives for their disability in this regard. "This regard" there means "financing".

4. We recommend that the growing importance



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of research should be recognized by government and steps taken to ensure that co-operatives have access to sources which can provide them with as much information as possible as a basis for sound growth and development.



THE CHAIRMAN: Thank you Mr. Staples and Mr. Laidlaw.

MR. STAPLES: Mr. Chairman, perhaps I could point out this brief was drafted by the people you see before you, and has had a great deal of consideration by the co-operative movement across Canada even involving the Board of the Co-operative Union of Canada in session, at which time they went through the draft copy approving particularly the summary and conclusions and recommendations.

THE CHAIRMAN: Thank you. I would like to add from our point of view we are extremely grateful to the co-operatives to whom we sent questionnaires for the fine response we have had from them. We really were given co-operation at this time.

MR. STAPLES: We are very glad to hear that. We had a rather uneasy feeling this Commission knows far more about the co-operative movement in Canada than we do.

THE CHAIRMAN: We are still learning. Professor Drummond, would you start the questioning?

COMMISSIONER DRUMMOND: I don't suppose it matters very much, Mr. Chairman, as far as where one does start from.

On page 7, there is a paragraph there that suggests an awful lot to me; the middle paragraph. You speak of the recent development of rural district co-operative supermarkets similar to the one that has just recently been opened in Winnipeg.

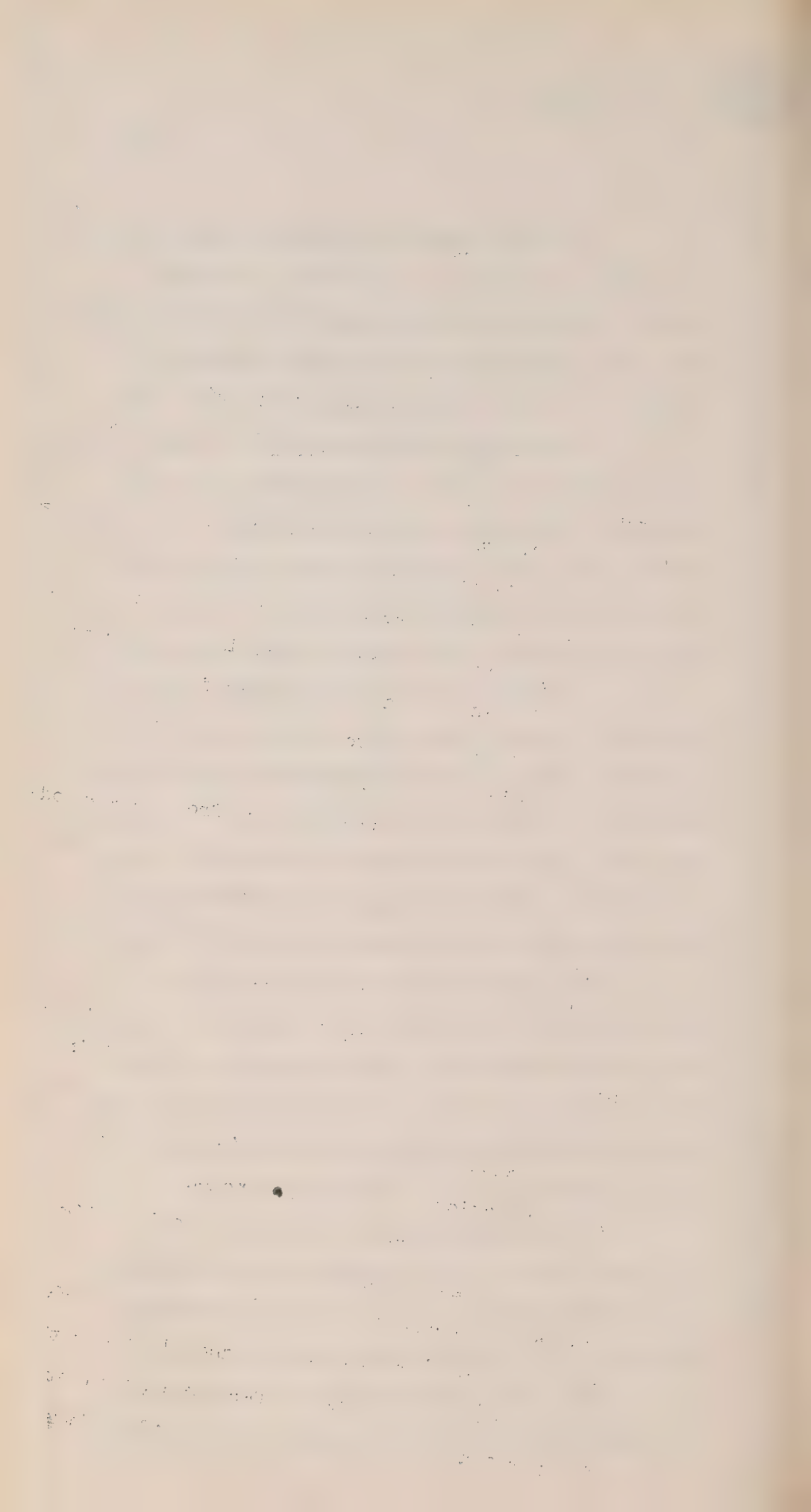


In most respects I suppose I would say that this type of consumer co-operative is actually playing the same game, and pretty well in accordance with the same rules as the private supermarket chains. It is in direct competition with them.

The reason I mentioned this is that to the extent that co-operative supermarkets goes along, plays the same game with the same rules, it is thereby, it seems to me, giving at least lip service to the methods represented by what we may call your opposition, that is the private chain supermarkets.

I think perhaps the Commission would be interested to hear from you, something about the extent to which co-operative supermarkets at least actually are attempting to depart from the methods and practices being followed by the private chain supermarkets, and perhaps in particular, I would ask you to give us your reaction to this thought: We all know that consumer co-operatives have attempted and are attempting to narrow the spreads, and achieve savings for their members by paying back at the end of each fiscal year end what they call patronage dividends which is equivalent to a price reduction. It is "postponed."

I am wondering what you would think about the idea of large consumer co-operatives, instead of postponing these patronage dividends, paid them right at the start, and all along the way. They would simply offer the equivalent of the patronage dividend in the form of an immediate





price reduction. In other words, offer the goods for a lower price than the others are doing at the time the goods are sold.

I think this has actually been experimented with by co-operatives in some other parts of the world. I think we would like very much to hear your general reaction about the feasibility of this idea, particularly in view of the fairly repeated suggestion that we hear that private chains today are engaged in types of competition other than price competition.

MR. STAPLES: That is quite a tall order, Dr. Drummond and Mr. Chairman. It is true the co-operative stores, particularly perhaps the so-called co-operative supermarkets do follow to quite an extent the methods of other firms in the business. This may be deplorable, but I think it is inevitable, a certain measure of it is inevitable. We do not think about co-operatives really -- though we do a lot of loose talking about them -- we do not think of co-operatives as competing in the ordinary sense of the term. We think of co-operatives as set up for a different purpose, to serve a special group of people, the membership. We cannot choose the environment. Others compete with us. We do not compete with them, so to speak. I am not sure I make my point clear.

There is however a very important principle involved in that point. Now, I think we can assume that because co-operatives do represent or do seek



to represent the pure consumer interest, as they get stronger, and more influential, they can gradually perhaps I should say slowly, although I hope it might be rapidly -- change some of the wasteful methods of doing business; wasteful, I mean, from the consumer standpoint, not necessarily from the chain standpoint, to the people who are actually doing it. I think that is the whole point.

As far as the other point is concerned, about the immediate payment of a patronage dividend, or price reduction, there is quite a difference of opinion around the world in the co-operative movement on this very point. You will find that the movement in Sweden, for instance, does not by any means hold rigidly to this principle, of selling at the going market price. If the members feel they are too high, they do not hesitate for a moment to cut it, and cut it substantially.

I spent four days in London, England, in September. While I was there the London Co-operative Society, the largest one, with great publicity, cut its price levels on many lines of stable goods substantially. That was a new departure. They were not following the going price any more. I heard at the start, that this decision, to come to this decision, required weeks and months of discussion and study on the part of the Board of Directors because some thought it was a departure from a sound principle, but they did depart. They felt the price level was higher than necessary.



There is another point to this problem. I think it is something that the Co-operative movement in Canada has given inadequate consideration to. I think some of the very best marketing co-operative organizations in Canada should operate on an agency basis. They handle the end product, and they take no responsibility for it, except for providing the service. They undertake -- they are obligated to the members to supply certain products, and to return probably every cent they get at the ultimate point of sale, less cost of operation.

I think the co-operative movement in Canada may have to do some pioneering and experimentation in trying to apply that principle to consumer development. This would not be easy. I can outline a beautiful scheme in pure theory, but this runs into some difficulties because you can hardly expect the consumer to contract with his co-operative to buy his groceries for him, in the sense the farmer would contract to do a marketing job. I think we could expect only a very tiny minority of consumers would be interested. We would have to shade that principle somewhat, but in my own mind, and in this I do not speak for the organized co-operative movement, I do feel the very real possibilities for a sort of reverse agency set-up.

In other words, it is the collective buying plant, and the buying is done at the wholesale point,



and goes on the shelves, and can be marked on the wholesale price. This is pure theory, and when the consumer checks out -- before the consumer enters the store, he is obligated to pay what is marked on the goods, plus the cost of operation.

I am sure that Mr. MacKichan and some of the other co-operative leaders across Canada will regard this as a very wide departure from present methods.

I am only saying we should provide more research, more study, more consideration to the matter that you have raised.

I would not want to just cut the prices to take care of the patronage dividend because we might run into trouble. There may not be any patronage dividends. We might be operating at a loss. I hope I have directed myself to the point in question.

COMMISSIONER DRUMMOND: It is very effective.

COMMISSIONER MacKICHAN: I would like to interrupt here. I think we would do better if we were buying at the manufacturing level, rather than the wholesale.

MR. STAPLES: It may be.

COMMISSIONER WALTON: In your co-operative stores, or generally in your co-operative stores, do you handle other than your co-operative brands?

MR. STAPLES: Oh yes.

COMMISSIONER WALTON: Are you able to sell these more cheaply than competitive brands?



MR. STAPLES: Well, I think --.

COMMISSIONER WALTON: Or do they tend to be about the same?

MR. STAPLES: I think they tend to be about the same. The policy is not always followed, but the policy is to sell at the going rate.

COMMISSIONER WALTON: That is the rate you claim the supermarkets charge, what the traffic will bear?

MR. STAPLES: Yes.

COMMISSIONER WALTON: So that is really holding an umbrella over the co-operative brand, in a way?

MR. STAPLES: In a way, yes.

MR. LAIDLAW: Of course, the saving there is not mainly in the price. The saving would be made by the co-operative in the fact it does not have to carry a large number of competing lines.

COMMISSIONER WALTON: That is if they just carry your own brand?

MR. LAIDLAW: Yes. We have a few co-operatives in Canada -- unfortunately, there are not too many -- that do not try to go along with the supermarkets and regular business, and all of this, but who hew to the line in the co-operative theory of having only co-op brands, and eliminating all advertising and such, and these co-ops are able to show a very considerable saving for the members.

One co-op, I have in mind, does follow that completely, and their saving is not so much in



the price that they save in one article, but the fact that they only have to carry, for example, one brand of soap flakes instead of ten, one kind of tomato juice instead of five or six. They save on inventory. They save in the space and the costs involved.

COMMISSIONER WALTON: Does that satisfy the customers who do not mind not having all those?

MR. LAIDLAW: Well, of course, the decision has to be made by the members.

COMMISSIONER WALTON: Yes.

MR. LAIDLAW: We have found it is futile to try to force that on our members. They have to pretty well make up their own minds to it, and it has to be done gradually. In communities where it is done, they have achieved a saving which in some cases is quite remarkable.

COMMISSIONER KIDD: On your recommendations, there are one or two questions I have. You say that in order to establish this association that you have in mind, you would like to see the contributions of the societies matched dollar by dollar by the Federal Treasury. Now, do you not think it would be preferable to have such an association apart independently of any government; or to put it another way, what would be the advantage of having a government and still further do you not think there may be governmental interference?

MR. STAPLES: I suppose there is always that danger. Perhaps this needs further thought. We were only outlining this as an example of how it

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might be set up, but to your question it seems quite correct to take the view that the Government of Canada has some responsibility for the welfare of the consumer, and for helping to organize and inform consumer interests. Most of the assistance has been on the other side. Most of the Government assistance policies seem to go for the assistance of various groups of producers, but this would redress the balance to some extent. I think there is one other word might have been put in our brief. There should and no doubt would be some modest limit to the amount of the government contribution.

COMMISSIONER KIDD: You say that the association would be provided with radio time, and with public news bulletins, again with government contributions. We note that there are some independent publications in the United States which do publish bulletins on marketing. First of all, what do you think of that sort of approach and secondly, were you thinking in terms of cost analysis, volume analysis, marketing analysis, doing all those things for your membership in such an issue?

MR. STAPLES: I think the answer is yes. We do think of that although we do not think of it as an organization with a skyscraper office and hundreds of employees and that sort of thing which might be implied in just an affirmative answer to your question. We were thinking of this as a relatively small organization in terms of its staff and budget, which would do what it could with



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research machinery, and machinery for distributing information and so on. It would do what it could to keep the consumer as such informed. It would be a terrific job.

COMMISSIONER KIDD: If a new item came on the market, for example, would you think you would analyze it for quality and comparison of costs and inform the consumers of these features?



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MR. STAPLES: Well, it is pure conjecture but I feel in theory in its work such an organization would specialize; they might go on with breakfast food and do a very fair investigation of this and provide people with the result of their investigation rather than taking on some new product as a special detail. I have no idea how it would operate on day-to-day work.

COMMISSIONER KIDD: On the recommendations on the Co-operatives you say:

"We recommend that a Co-operative Act be passed by the Federal Government under which co-operatives doing business or intending to do business in more than one province could be incorporated (attempts on the part of the Co-operative movement to obtain such legislation has a history of more than fifty years.)"

Does that allow you to develop in a greater degree or keep the general stores, or what?

MR. STAPLES: We would not want to say it would enable us to compete, it would enable us to do a better job for members. There has been no Co-operative Act and never has been, nothing under which a co-operative could be organized, and the result is that every time we want to incorporate a co-operative federally it has to be done by a special Act.

COMMISSIONER KIDD: How would this enable you to serve the members better?

MR. STAPLES: Well, we have incorporated a number of such co-operatives but it is a slow



business where it has been necessary. For instance, take a co-operative wholesale organization as we have in Saskatchewan. We will say that in order to provide its members with coal -- this is consumer goods though not food -- it has to provide itself with a source of supply and so it requires a coal mine in another province. It also requires a lumber mill in another province. Organizations such as that should have access to good legislation under which they can operate and not have to start over and over again every time.

COMMISSIONER KIDD: On No. 3, have you any ideas as to how capital can be raised? They require a capital?

MR. STAPLES: Well, there is a good deal of co-operative financing machinery in Canada. There are co-operative credit societies, which are central organizations, in a number of provinces. There is the Canadian Co-operative Society which is not a very large organization in terms of its operation, and all this leaves out of the picture for the moment the very extensive co-operative movement in the Province of Quebec. I would think that somehow machinery could be adjusted, perfected, perhaps reassembled, in order to do a better co-op financing job. I think the government might well consider making some fund available under proper safeguards through some such machinery. We are trying to anticipate the results of the study here and we are not really ready to do that.

One other word. As we indicated in the



brief, financial assistance to co-operatives has not by any means functioned in Canada to any great extent. Perhaps the most notable is in the Chairman's own province where the electric companies are doing a job to distribute electric power, and they are doing it to quite an extent on government money under an appropriate programme. I think that attitude towards the co-operative development should be extended; finances should not be just available to co-operatives, as it is in some cases, more or less on an emergency basis. We should have a conscious, planned programme worked out, and to do that we have to have federal-provincial co-operation as well as the co-operative. That is the basis of our thinking.

COMMISSIONER KIDD: Here is a question we often hear when we are discussing co-operatives: instead of having patronage dividends, why does the co-operative not reduce its price to the consumer?

MR. STAPLES: That comes close to the question Dr. Drummond was asking, at least one part of one of his questions. Well, the offhand answer, of course, and the answer that the co-operative movement would have in mind is, it is not able to reduce the price because you are not sure the price is too high until the end of the period. You cannot estimate your costs until the end of the period and you do not know what the cost of distribution or handling is going to be until the end of the fiscal year. If we reduce the price by one per cent or two per cent that would in many cases run co-operatives into a loss.



COMMISSIONER COUVRETTE: You are selling at market prices, are you not?

MR. STAPLES: Yes, in the main.

COMMISSIONER COUVRETTE: The same thing applies to other competitors too?

MR. STAPLES: That is right.

MR. LAIDLAW: There is also the added danger of starting a price war where the co-operatives are comparatively weak, and under a price war it could be fatal, so as long as co-operatives are not dominion business they think it would be wiser for them to follow the market prices. Sweden gives us the example. The co-operatives in Sweden do not generally follow the market price. The co-operatives of Sweden are so well established, they are so firm in their operations and so well known and accepted that the co-operatives are the base centres and they set the prices and they deliberately cut prices as low as they possibly can.

COMMISSIONER COUVRETTE: Well, I seem to be the black sheep at this table. I am a middleman, but I might say that I am open for conversion, but the brief so far has not converted me to any extent this morning. However, do not give up. You have friends on this Board and they will do their best.

There are a few questions that could be asked but there is one particularly that strikes me. It is a very strong statement on page 22, the last four lines on the page:

"Co-operatives are the last chance people



"have to defend themselves if they do not
"want to see all food distribution given
"over eventually to state control to protect
"both producers and consumers from the abnormal
"price spreads of today."

Now, can you elaborate? Is there as much danger
from state control as from the co-operatives?

MR. STAPLES: Of course, the fact is, and
I think the indications are, that the world of co-
operative development tends to minimize the need for
government intervention because co-operatives repre-
sent the people themselves, they are the people in
business, and they feel if they can protect themselves
government does not need to get into the picture.
That is a general re-statement of that point. I am
not sure if that is an adequate answer, but then again
I am not sure I understand the question.

COMMISSIONER COUVRETTE: Well, of course, it
is a very broad question. If we are in danger of
slipping into state control I took it for granted that
this statement meant that under our actual system it
was the one to lead us into it and that co-operatives
could offer some salvation. That is what I understand
from this statement. I was just asking how people
regimented into total co-operative systems like the
one you have mentioned in a couple of places -- two
or three places in the brief -- where you said that
your contention is that the old system of food distri-
bution should be owned by producers and consumers.
You said that in a couple of places.



MR. STAPLES: Yes.

COMMISSIONER COUVRETTE: Well, with people so regimented, would it not be easy, in state power, to take control over much easier than if you have, let us say it frankly -- again I say I am a black sheep member but it would be easier to exercise control over a bunch of regimented men than over a lot of individualists?

MR. STAPLES: Yes, but why would government want to do it under such circumstances?

COMMISSIONER COUVRETTE: Oh, well, governments and powers sometimes it would appear have done queer things in the past.

MR. LAIDLAW: Is it not true that where abuses creep into our economic system in one place or another eventually public opinion forces the government to pass measures to protect one side or the other and we also have that to some extent in the food industry. For instance, producers, farmers in Canada, are now guaranteed on quite a number of products by floor prices. Consumers, on the other hand, are protected in some places, for instance, by the Milk Board setting prices for milk distribution. Fifty years ago such a thing was unknown in Canada. There was no regulation, but gradually we have more and more regulation and we have in many other aspects of life too, and I think eventually where abuses creep in government will take over sooner or later and they will do it in food too.

COMMISSIONER COUVRETTE: I agree with you that abuses are always bad things whatever side it comes from



but it is your belief that cooperatives would be better protection against such a result, any abuses, to some fairly acceptable system.

MR. LAIDLAW: It is not always abuses either. It simply is a situation, a situation that may not be the result of abuses but just a change in conditions or gradual evolution in some form or other. We have, for instance, food surpluses in Canada today and if it were not for government intervention, government regulations and government assistance of one kind or another the Canadian farmer in Canada would be in a very, very sad plight.

COMMISSIONER COUVRETTE: Now, Mr. Staples, I think a few minutes ago you stated that there is a tendency in co-operatives to get away from asking for government protection and yet in the same brief you have said somewhere in the past it has been helped by government but fortunately it is growing away from that. Am I right?

MR. STAPLES: Yes. We said some co-operatives had received assistance. The movement as a whole has not, but you will find examples of co-operatives that at some point in their history had some government financing.

COMMISSIONER COUVRETTE: Now, in the same brief you also seek to ask in your conclusions or recommendations, the second part of them, for some help from government which does not agree with what you stated when you said you were trying to get away from it.

MR. STAPLES: Well, government help under



proper circumstances according to a properly worked out plan is one thing, some measure of government control or intervention is quite something else. The two may not necessarily add up to the same thing.

COMMISSIONER COUVRETTE: No, but do you not think that the helpers generally like to have a say in things and are likely to try to get more control and more control?

MR. STAPLES: I hope if that is necessary -- we have, for instance, in the Co-operative Credit Societies a growing number of co-operative leaders who are thoroughly schooled and specialized in this business I mention -- co-operatives. This is a specialized field and it is through that machinery, I think, if I may say so, that any government money should be channelled to co-operatives so that it is used in the judgment of the people who know best, at the point of greatest need, and this would not involve any control only to the extent that government would say, "We will make this much money available and no more" which is control up to a point, but that is the proper field for government.

Now, I think this kind of thing needs consideration. To return to our basic statement on this in the brief, because as we tried to say the modern economy in Canada or anywhere else reflects government policy. If the government is going to ignore -- if I might use that rather harsh term -- co-operative development and assist in many ways other forms of enterprise than the co-operative movement then the



co-operative movement will not develop as quickly as we would like to see it. However, I agree there is a middle road and we would rather see it our way and we would like to see the government get in with the co-operatives and work out some plan which would keep the public interest very clearly in mind.

COMMISSIONER COUVRETTE: Of course, there are a lot of advantages claimed by co-operatives and it is the work I want to get some more information on. At one point here on page 12 -- I do not know who they are, I do not have to know -- I see on the second line you say that in a particular period they received about \$46 million in earnings?

MR. STAPLES: Yes.

COMMISSIONER COUVRETTE: Now, these earnings have been distributed to a lot of individual members. These members, of course, have paid their income tax and their own income tax?

MR. STAPLES: Yes.

COMMISSIONER COUVRETTE: Would you say the total of this income tax paid by the individual members would amount to as much as a corporation earning \$46 million?

MR. STAPLES: Well, I would say not likely because a good many of those members would not be paying much income tax, perhaps none.

COMMISSIONER COUVRETTE: Well, what I want to get at is this, it may be a certain advantage to the farmers to be members of a co-op, but we must not forget the other side of it, that these taxes that would



have been paid by a corporation would have gone to the government and handed back to the citizens and they are citizens so they are losing part of it through this way of taking away a certain amount of taxes from the government hands; is that not right?

MR. STAPLES: Well, I am not sure I follow the question. Under any system, whether it is co-operative or what it is, the resources the government requires will come from some place. It comes from the same place it comes from now. That is the people. Even if the corporation pays income tax it comes from the people because it has to come out of the margin somewhere and in co-operatives the set-up will take that, the money will just come from the people. As a matter of fact, I do not quite follow your question.



COMMISSIONER COUVRETTE: Then, what is the advantage of switching when, under the present system it comes from the people, and whatever system you adopt it would still do that? Where is the gain?

MR. STAPLES: The main reason for organizing co-operatives is to escape income tax. You say, what is the reason for switching?

COMMISSIONER COUVRETTE: Well, this is the third place where I have asked that question, and I suppose it will need more clarification in my own mind again, but, as you say on page 5, if the whole system of food distribution should provide certain consumers co-operatively, then you will be in a position where all the taxes would come from private income taxes spread amongst all the members of the co-operatives, and there would not be any more from co-operatives in that field, since everything would be under a co-operative system.

MR. STAPLES: There would be many other industries left to tax.

COMMISSIONER COUVRETTE: Well, we are on food, and that is important enough: 25 per cent at least of the Canadian budget. Let us stay in this field, if we may.

MR. STAPLES: Yes.

COMMISSIONER COUVRETTE: Isn't that so, that it would change the taxation picture?

MR. STAPLES: Yes, it would change the taxation picture, that is right. Incidentally, on this point you have, perhaps, a very strong point in



one way of speaking, because it means patronage dividends paid by a consumer organization should not be able to be -- it is a saving; he has already been taxed on his personal income, and so the Government gets no revenue from that source -- as far as co-operatives are concerned, for quite obvious reasons.

COMMISSIONER COUVRETTE: It seems to me it is fair to say that if co-operatives gain, they don't gain as much as the cheque they get.

MR. LAIDLAW: I think it should be pointed out that in the illustration you take of the marketing co-operative, the \$46 million that they have received in patronage earnings, is only part of the gain. In addition to that they have built up for themselves \$60 million in plants that are servicing them, and I think its members in that particular co-operative, even if they didn't receive the \$46 million in patronage dividends, would still be strong supporters of their organization because of the services they get from the plants.

COMMISSIONER COUVRETTE: I am not discussing the achievements of the co-operatives at all. I am just stating that that \$46 million -- and that is why I spoke only of patronage earnings -- because that is the money that they get in cheques and it is not returned as income.

MR. LAIDLAW: Not in consumer co-operatives. This is a marketing co-operative.

COMMISSIONER COUVRETTE: It would be in



a seller's co-operative?

MR. LAIDLAW: In this case the members would have to pay income tax on that portion. They would simply add it to their income.

COMMISSIONER COUVRETTE: In this case they would have to?

MR. LAIDLAW: Yes.

COMMISSIONER COUVRETTE: Well, that is the case I was referring to.

MR. STAPLES: Mr. Couvrette, Mr. Chairman, raises the principle of income tax, and it is a very difficult one to get away from, but if we are going into that, it will take us a little time.

COMMISSIONER COUVRETTE: My only point was to perhaps bring to your attention that according to me that that is a little benefit from government that you are getting through escaping the scale of corporation taxes. However, I don't think we will agree this morning on that -- I am sure.

MR. STAPLES: Let us see if we can agree on this: The co-operative movement does not object to the principle of income tax, and it does pay income tax the same as any other business, except -- and there is one exception -- in the case of a co-operative which is newly organized and not over three years old, there is no income tax; but, in all other cases, the Income Tax Act applies to all businesses equally -- co-operative or non-co-operative. Your business can pay patronage dividends if it wants to, and it won't be taxed on them --



subject to certain conditions.

COMMISSIONER COUVRETTE: Just like everybody in Canada can join co-operatives, and in principle you should not need to ask for more protection of any kind.

MR. STAPLES: I am very glad to hear you say that, sir.

COMMISSIONER DRUMMOND: In your recommendations, the first one is that you recommend consumer education, which is an excellent point, but you mention a lot of associations which should partake in such a scheme: Who is going to take the lead in that? Are you suggesting the government should do it? It seems you are not suggesting anybody there.

MR. STAPLES: That is a very good question. I don't know what organization should take the lead. I think if this Commission were to recommend some such set-up, all the organizations named here and a few others we haven't named, could be got together to explore the possibilities. I don't think that would be too difficult.

COMMISSIONER DRUMMOND: Would you include the National Council of Women and the C.A.C.?

MR. STAPLES: Yes, I think it should be a much longer list; we were only using examples.

COMMISSIONER KIDD: Would you include the middlemen too?

MR. STAPLES: I think perhaps in another few weeks we might be able to do that.



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THE CHAIRMAN: That sounds like an excellent note on which to close this discussion. I thank you and those who helped in the preparation of this brief, and particularly the members of your movement who turned out this morning.

MR. STAPLES: Thank you, very much.

--- A short recess.



--- Upon resuming.

Submission of
UNITED PACKINGHOUSE WORKERS OF AMERICA

Appearances:

Mr. Lyle Cooper	Research Director
Mr. Fred Dowling	Director
Mr. John Lenglet	Assistant Director

THE CHAIRMAN: We will now hear the brief from the United Packinghouse Workers of America. Mr. Cooper and Mr. Lenglet are with us. Do you wish to read the brief?

MR. LENGLET: I will begin the presentation and Mr. Cooper will complete it.

THE CHAIRMAN: If you wish to change over, that will be fine. Just proceed, please.

MR. LENGLET: The United Packinghouse Workers of America (UPWA) is an organization whose interest in the subject of price spreads on food results from the position of our members both as producers and consumers.

As producers, the members of our District Number 8, with headquarters in Toronto, slaughter, dress and process livestock into meat -- accounting for most of the Canadian meat which is exported



as well as that which is sold to domestic consumers. In addition, men and women who belong to the United Packinghouse Workers are an important factor in other branches of the Canadian food industry, including poultry, fruit and vegetable canning, and flour and cereals. In passing, for the Commission's information, it should be noted that in the United States and Puerto Rico most of the production work in the manufacture of cane sugar is performed by UPWA members, with a majority of the cane-field workers in Puerto Rico also belonging to the Packinghouse Workers.

As a major factor in the production of these important foods, obviously one of our first concerns is to strive, through collective bargaining, for the establishment of minimum standards of income, safety, health and security for the membership. Here the ultimate aim, indeed ideal, is to provide adequate family income and security for UPWA members as consumers.

However, in striving for the attainment of this ideal we find that the fortunes --or misfortunes -- of other groups of producer-consumers are of great concern. Chief of these groups are the farmers and ranchers. For example, prolonged drought in the Prairie provinces eventually has a devastating impact on the production of livestock as well as of grain. Equally, if not more devastating are livestock prices so low and/or so unstable that they force the farmer and rancher to curtail breeding



drastically. The sequel of reduced livestock production is sharp cutbacks in marketing and slaughter. And these cutbacks play havoc with our members' ability to obtain steady employment and stable incomes in the packing plants.

Therefore, in our industry short weeks and layoffs are directly traceable to the economic situation of the farmer who produces livestock and other food. This is a basic conditioning factor, an important fact of life, for the workers in the meat packing industry of Canada. It explains why the United Packinghouse Workers strongly favours those measures which will enable the agricultural producer to maintain output at levels sufficiently high as to provide the mass of consumers food at prices they can afford, accomplishing this on a relatively stable basis -- that is, without abrupt and erratic year-to-year changes in the volume of livestock channeled into the packinghouses.

. It is appropriate to state at the beginning that much of the discussion which follows is concerned with the increasingly decisive factor in price determination and price spread, the food chain stores and supermarkets. In our view, the chain store and supermarket now occupy the most strategic position in the entire complex broadly defined as "the food industry". The chains and the supermarkets occupy this central and increasingly controlling position both in respect to the consumer and the farmer -- and probably also in respect to



important segments of food processing. The problems growing out of this increasing dominance doubtless ramify beyond the subject of price spreads as such, but a correct understanding of current price spreads on food requires a close look at the leverage in the hands of chain stores.

However, before setting forth the reasons for the view just indicated, it is appropriate to present our position on certain producer aspects of the problem.

To our knowledge there have not been any real attempts, in the submission from other groups, to place responsibility on organized labour for the growing price spread on food products. To be sure, we understand that a few witnesses have made general and somewhat vague references to "higher labour costs" as a significant element in bringing about this increasing spread. But we do not believe adequate factual data have been presented to the Commission in support of such opinions. To make such statements "stick", as the members of this Commission well understand, it would first be necessary to implement the statements with statistical proof that wage rate increases, together with related labour costs that can be assigned to units of output, had substantially outrun increased output per man hour -- thereby increasing unit labour costs.

Second, to obtain valid data and meaningful insight on unit labour costs, account would need



to be taken of significant changes in the "product mix." For example, historically there has been a marked trend in the meat packing industry toward marketing at retail a smaller and smaller proportion of meat in fresh form and a larger and larger proportion which is frozen, cured, canned or is in the form of sausage. The total effect of these additional stages of processing is to increase the manhours of work beyond those required at the fresh meat stage. This trend, at any given time, may or may not have been counteracted by technological improvements which, to date, have been most far-reaching in meat processing or "manufacturing" as distinguished from slaughtering and dressing. Actually, "labour-saving" technological changes -- including new plant layout -- appear to have offset the changes in "product mix" that, of themselves, would seem to require more labour in the meat packing plant.

For present purposes, however, the significant point is that any attempts to obtain a realistic understanding of trends in manhour output would need to take account of significant changes in "product mix." Perhaps it is necessary to stress this fact because, although everyone would recognize at once that changes in the "product mix" in the metals fabricating industry are of vital importance when attempts are being made to appraise manhour output trends, there may be a disposition on the part of some to assume that comparable changes do not take place in the food industry.



Our brief discussion of wage rate increases and increased labour productivity has centered on the claim that wage rate increases, by adding to costs, force up consumer prices. We return later to the same subject with attention directed mainly to the effect of higher labour income on prices received by farmers.

The importance of "product mix" becomes evident when we examine the selected price spread data that are published annually in the Economic Annalist, issued by the Marketing Service, Economics Division of the Department of Agriculture. In the Economic Annalist for August, 1958, in an article by Z.Y. Yankowsky entitled "Price Spreads and Farmers' Share of the Consumer's Food Dollar", are tables on the marketing margin and farmers' share for "14 selected agricultural commodities" for the years 1949 to 1957. Important as these 14 items are, the selection necessarily omits numerous other products (a typical supermarket boasts of at least 5,000 and up to 7,000 consumer items -- most of which are food). Moreover, the 14 selected items are assumed to be essentially the "same" in 1957 as they were in 1949. For example, eggs, beef, pork, canned peaches, etcetera -- as well as potatoes -- are assumed to be duplicates of one another from year to year. The rationale evidently is that only by keeping items substantially "identical" is it possible to maintain stable benchmarks for "margin" and "share" comparisons over time.



But, while this approach has a certain plausibility for measuring purposes, it seems tacitly to take for granted that the items to be measured really have not changed in the 8-year period covered by the table. Yet, while a pound of "beef, blue brand" in 1957 may essentially duplicate a pound of this beef as of 1949, the composite pound of "beef" as well as of "pork" has changed significantly in these eight years. And the changes in this composite have meaning not only for consumers but also for livestock farmers.

What holds relative to meat applies also to all or most of the other 14 selected items. It particularly holds for the wheat farmer who not only supplies the raw material for 2 of the 14 selected items, wheat flour and white bread, but also for cake flour and numerous "mixes" -- not to speak of the ever mounting number of packaged cereals.

This basic problem of realistic measurement is not solved at all by simply extending the list of selected items beyond 14. The U.S. Department of Agriculture in its Marketing and Transportation Situation publishes quarterly marketing margin and farmers' share estimates for 60 items which make up its "market basket". It might be assumed that 60 items is much better than 14. But how much "better", and better for what? These questions can only be answered by stating that the difference is one of degree -- that the attempt to measure changes with respect



to foods that are assumed to be static and unchanging is on the wrong track. This is because the assumption itself is mistaken: The "product mix" as the housewife encounters it in the grocery store for virtually every one of USDA's 60 items, as well as the Canadian Department of Agriculture's 14, has changed in recent years -- and most of them radically. Or perhaps more accurately: The "product mix" ultimately derived from the crops and livestock (raw material) raised by farmers and ranchers has radically changed. The significance of this is driven home when one recalls that the typical supermarket has many thousands of food items on its shelves, most of them intensively processed and elaborately packaged. Even if the list of 14 selected items were to be extended not to 60 but to 160, it would continue to provide an unrealistic and biased measure.

I would draw your attention to the footnote.

The nature and limitations of USDA's "market basket" are authoritatively described by Kenneth E. Ogren of the Department's Agricultural Marketing Service: "The market-basket series is designed to measure trends in the charges of a fixed quantity of marketing services and does not reflect in any marked degree changes in marketing services or types and quantities of food bought by consumers" "Trends in Marketing Costs and Practices -- The long term view",



pp. 5-6; a paper presented at the 34th Annual Agricultural Outlook Conference, Washington, D.C., November 27, 1956.

THE CHAIRMAN: Mr. Lenglet, I do not wish to limit you in any way, but if at any time you would like me to call attention to the footnote, we will see it is copied into the record without you needing to read it.

MR. LENGLET: All right.

Perhaps we are labouring the obvious. But the practical import of these considerations justifies the conclusion that the "marketing margins" and "farmers' shares," as they are at present computed and publicized, systematically understate the total marketing margin on food and overstate the farmers' share of the consumer's food dollar. This is the unavoidable outcome, first, because existing measuring techniques attempt to make static comparisons for periods in which dynamic changes have occurred on items they purport to measure and, second, because hundreds, if not thousands, of important food items are not measured at all. Granted that the statistical difficulties of attempting to take account of technological changes and to weight for "new" products are well nigh insurmountable -- even if no problems were encountered in obtaining necessary funds -- the fact remains that present attempts at measurement have such a narrow and (by assumption) such a stationary base as to create more misleading confusion than



clarification.

In the light of these considerations, the opening sentence of the above cited article in the Economic Annalist appears to be clearly incorrect. It reads: "In 1957, farmers received slightly more than 44 cents of the dollar consumers spent for farm foods of Canadian origin." Because the list of 14 selected items, even in 1949, was so incomplete, and taking into account the continuing multiplication of consumer food items derived from the products of Canadian agriculture, "44 cents of the dollar" is, we believe, unquestionably a marked over-statement.

By the same token, the estimating procedures that have been relied on both in Canada and the United States have habitually minimized the actual marketing margin. To state this leaves unanswered the question of how legitimate the increased -- and increasing -- price spread is. But before attempting to come to grips with this crucial issue, there is one other aspect of the production and producer aspects of the price spreads problem that deserves comment.

It is a frequently expressed view that, historically, farmers have been relatively weak bargainers -- tending "to sell cheap and buy dear". As a generalization, we think this is unquestionably correct. The matter has been well expressed as follows:

"Distribution and processing firms in



"agriculture hold an advantage over the individual producer because of greater bargaining strength, superior market information, and the ownership of storage facilities. Idle capacity in processing facilities contribute to high processing costs.

These and other deficiencies in the operation of the free market for agricultural products result in unnecessary price movements ..

Thus, the income problems of farmers are due in large part to conditions over which they have little or no control. A large section of the farm population is subject to chronic poverty and lacks the resources to expand or to leave agriculture".--Province of Saskatchewan, Royal Commission on Agriculture and Rural Life, 8 Agriculture and Rural Life, 1956, p. 24.

This bargaining weakness of the individual farmer is spelled out as follows with respect to the cattle producer:

"To a large degree the buying and selling of cattle is a subjective process, the appraisal of the animal's value depending on judgment of the dressing-out percentage and the probable cut-out value. In addition bargaining is an art in which the usual buyer of cattle must be skilled in order to remain in business. In view of this, how is the



"producer likely to come out in a transaction with a skilled buyer? The chances are that in a large number of cases he probably receives less for his cattle than he might if represented by an experienced agent. To the extent that cattle purchased by drovers and dealers are re-sold in stockyards, this is likely to be true; otherwise, there would be no profit in re-selling"- M. Rachlis, "The Structure and Operation of the Canadian Livestock Market System", Canadian Journal of Agricultural Economics, Vol. 1, No. 1 (1952); Reprint, p.4.

Mr. Rachlis, who is on the staff of the Economics Division of the Canada Department of Agriculture, indicates that these bargaining handicaps of cattle raisers initially applied also to the farmers who produced hogs. But he points out that this handicap has been overcome in some measure through federal carcass grading of hogs -- *ibid*, p. 18.

In the discussion which followed the presentation of Mr. Rachlis' paper, K.A.H. Buckley, Department of Economics, University of Saskatchewan, described the characteristics of a competitive market for livestock, and he expressed the view that real competition did not exist "in the intermediate markets for livestock." He then stated that "the livestock processing industry in Canada is properly described as an oligopoly with a competitive fringe. That is, on the buying side in the market, there are a few buyers taking a major



share of the supply and therefore, on theoretical grounds there is a basis for suspecting some degree of exploitation. Mr. Rachlis points out that "the barter trades in cattle and the small volume of hogs sold in organized market centres also violate conditions assumed in the theory of competition. I am not stating that there is exploitation in these markets but only pointing out that the possible implications of these departures from competitive conditions should be investigated by research workers interested in the marketing of livestock in Canada -- Now some farmers appear to think a gain may be made in the co-operative marketing of livestock, or in other words that monopoly elements do exist in the livestock field." -- *ibid*, p.38.



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The views just quoted were expressed in 1952.

To the extent that nothing approaching complete competition in the marketing of the farmers' cattle existed in 1952, evidently that condition has not been significantly altered by 1958. For in 1958, as in 1952, not much over half of the cattle marketed for slaughter were channeled through public stockyards where, presumably, the farmer has a certain degree of price protection through an experienced seller acting as his agent.

With respect to hogs, however, the bargaining disadvantages of many farmers have been somewhat reduced since 1952. There has been marked growth in the co-operative marketing of hogs, particularly in the Province of Ontario. While perhaps this development of collective bargaining has gone the farthest among the hog producers of Ontario, it has much wider potentialities. The subject has been intensively examined by Professor D. R. Campbell in a recent article entitled "Collective Bargaining in Ontario Agriculture and Industry" -- Canadian Journal of Agricultural Economics, Volume VI, No. 1 (1958). Professor Campbell's analysis makes clear that collective bargaining is needed for the protection of the individual farmer for essentially the same reasons that it is needed by the individual wage earner -- namely, the overwhelming handicaps both suffer when they attempt, as individuals, to bargain over what each has to sell. In fact, for the farmer, as for the wage earner, the expression "individual bargaining" is a misnomer. For both individual farmer and worker are so passive



in the market place that real bargaining does not exist.

Professor Campbell also makes clear that for both farmers and workers to bargain effectively, strong legislative protections are required. In Ontario, for wage earners this is accomplished through the Labour Relations Act and for farmers through the Farm Products Marketing Act -- with the latter, in Campbell's view, somewhat more far-reaching than the former in the degree of legislative protection provided.

In terms of the Commission's investigation the great vulnerability of the farmer to price changes on primary agricultural products has marked significance. For the price spread is initially measured from the index of farm prices for particular farm products; and index changes in any one year are likely to be much more abrupt and greater in magnitude than the dollars and cents changes in marketing charges -- since these latter charges tend to be somewhat "sticky". (This statement by Ogren is worth quoting: "Most of the sharp decline in the farmer's share of the consumer's food dollar which has received so much attention was the result of lower farm prices rather than higher marketing costs." --op. cit., p. 5. While Ogren was speaking of the situation in the United States, we believe his statement also applies to Canada.)

The matter here under discussion is clearly indicated in the article on price spreads in The Economic Annalist for August, 1950. For example, in Table I (p. 94), we observe that the marketing margin index, which is on a 1949 base, fell from 127.1 in 1952 to



124.5 in 1955, whereas average farm prices for the 14 selected items fell from 108.6 in 1952 to 97.2 in 1955. Since this point drop was much greater than the point drop in the marketing margin, the price spread increased during these three years. To be sure, the drop in the marketing margin index may have been more apparent than real, because to the extent that our product mix¹¹ critique above is valid, it is quite possible that the total margin -- not that for only fourteen items -- increased.

But in any event, inspection of these figures and reflection on the vulnerability of farm prices to wide swings, makes it essential to attach great weight to this factor. The frequent abrupt changes in farm prices cause marked changes in price spreads; and these changes may be doubly significant for virtually all farm products ranging from potatoes to cattle. Moreover, in the sense that commercial fishing may be regarded as a specialized type of "farming", since its products are also subject to price vulnerability essentially the same price spread problem applies to fishermen as to those who till the soil.

We conclude that a major method for reducing price spreads on food products is a much more widespread organization among farmers for collective bargaining purposes. To the extent that farmers now stand passive and helpless with respect to determining the terms of sale for the crops and livestock they produce, they are in constant and chronic danger of their costs not being covered and their families receiving



substandard incomes. While the incidence of this state of things is not the same for agricultural producers in all sections of Canada or for farmers who specialize on one product, it is, to repeat, a chronic condition which hangs like a sword of Damocles over the heads of the great majority of farmers.

Therefore this source of the price problem -- the weak bargaining position of most farmers -- in our considered view requires careful evaluation by the Commission. We are also convinced that the realities require the Commission to set forth a constructive programme which seeks to ensure a fair share for the farmer of the consumer's dollar and to maintain this share at a reasonably stable level. Even though any remedial measures proposed by the Commission may not be completely new under the sun, in all likelihood the Commission's position and prestige would weigh heavily in the right direction.

While granting that the bargaining position of the farmer needs to be much stronger, we are entitled to be concerned about the apparently inexorable tendency of marketing charges on food to become larger. This steady though gradual tendency is ascribed to various causes. Higher labour costs due to the pressure of organized labour is a favourite explanation of those who have other fish to fry -- that is, those who seek to discredit the organized labour movement for reasons which are not motivated by concern over the price spread problem. We must hasten to record our impression, however, that there has been much more effort to



muddy the waters on this subject of labour costs in the United States than in Canada.

The subject has been ably dealt with in the submission of the Ontario Federation of Labour, C.L.C., to this Commission. The statistical evidence set forth in that submission demonstrates that increased man-hour output has almost certainly matched the increases in average hourly earnings for the food and beverage group of industries as a whole. In addition, data are presented in the Federation's submission which show that hourly and weekly earnings of food and beverage workers experienced a significant relative decline in comparison with those received by most workers in manufacturing during the decade 1946 to 1956. In this respect food workers as a whole have much in common with farmers who have also suffered a relative decline in income during this ten-year period. And a majority of both groups is also in the unenviable position of failing to receive average annual incomes adequate for family living.

MR. COOPER: In addition to the overall evidence already submitted to the Commission relative to labour cost trends -- with emphasis on the changing "product mix" -- it is worthwhile to call attention to the fact that marketing margins on both beef and pork, as reported in the Economic Annalist, August, 1958, Table 2, page 94, actually fell for the period 1952 to 1956, 3.7 cents per pound (from 29.0 to 25.3) on beef and for pork rose by only 3.4 cents (from 24.1 to 27.5) in this period. The figures for 1957 show



increases but they are preliminary estimates subject to revision -- this aside from the inadequacies of data¹¹ (p. 93) which limit the accuracy of any one figure. When it is kept in mind that substantial wage rate increases have taken place in the meat packing industry, a quick inspection of these yearly margin figures on beef and pork indicate that rate increases have been largely counteracted -- and in some years more than counteracted -- by greater labour productivity and by other economies. Moreover, when the margins, measured in cents per hour are deflated by the cost of living index, it becomes evident that there has been only a nominal increase in the real cost per hour for most of the fourteen selected items over the entire decade, 1946 to 1956. And where there appears to have been real increases, in the absence of detailed breakdowns it cannot be taken for granted that such increases in cost are properly ascribable to higher labour costs. This is because labour costs at the meat processing and retail meat marketing levels are only two of a number of components which make up the composite marketing margins on fresh beef and pork.

With reference to the footnote, I think it is quite germane, and I would like to call attention to the fact that on this footnote it is drawn from what in the submission is Appendix "C", and the entire appendix, I think, is a very valuable source of information on this subject.

(Careful estimates based on overall data



indicate that labour costs at the packinghouse level in the United States are about $3\frac{1}{2}$ cents per pound and in the retail meat departments a little over 4 cents; whereas the total margin on beef is around 30 cents per pound and on pork around 26 cents. --

See 'Meat Price Trends,' by Victor L. Anfuso, Chairman, Consumers Study Subcommittee of the Committee on Agriculture, House of Representatives, U. S. Congress, Congressional Record, August 5, 1958 and U.S.D.A., Marketing and Transportation Situation, July, 1958, Table 23. Significantly the labour cost of $3\frac{1}{2}$ cents per pound applies to all the processing carried on in the packinghouse whereas the pounds of meat are computed on a fresh meat basis. Therefore, $3\frac{1}{2}$ cents over-estimates the actual labour cost of fresh meat.)

Here, with the Commission's permission, reference to a pamphlet study dealing with livestock and meat price data in the United States may be of some value. The pamphlet, Workers and Farm Income, is by Stephen Kaushenbush; it was issued by the Public Affairs Institute, Washington, D.C. Much of the analysis in Workers and Farm Income examines the charge that the disastrous drop in hog prices which took place in the United States during 1955 -- and largely paralleled in Canada -- was due to excessive wage increases in the meat packing plants. This was on the theory that a large part of such increases was shifted back to farmers in the form of lower bids for hogs.



The circumstance that the Secretary of Agriculture, Ezra Taft Benson, was among those who made that charge gave it a standing that it might not have had otherwise. However, it is not appropriate to take the Commission's time even to summarize the extensive statistical evidence which shows how mistaken Mr. Benson was in his assertion that wage increases of packinghouse workers were a major factor responsible for U.S. hog producers' low prices in 1955-56. This subject is dealt with in the first 19 pages of Workers and Farm Income.

More directly pertinent is the discussion relating to the "Food Market Basket" which begins on page 21. For the year 1951, the farm value of all the items in the "basket" was \$495. By 1955 the farm value had dropped to \$396 -- a "give away," in the language of Mr. Raushenbush, of \$99. He then asks: "Where did it go?" Raushenbush answers his question as follows: "He (the farmer) gave \$48 of it (\$579-\$531) to the food marketing industry and \$51 of it (\$1026-\$975) to the consumers.

"The \$51 he gave to the consumers was due to excess production and lower prices. Labour costs are not to be blamed for that.

"If labour is to be blamed for anything, it must be found in the \$48 per market basket that the farmer yielded to the food marketing industry." (Page 23).

Raushenbush then arrives at the actual labour cost factor in this \$48 increase by first computing the



the number of "baskets" for each of the five years 1951-1955, and the total food processing wage bill for the same years. From these two figures he derives the direct processing labour cost for basket (see Table VI, page 23). He finds that the increase was from \$65.43 to \$69.17. This \$3.74 increase for the four-year period amounted to 5.72 per cent, although Table VI shows that from 1953 to 1955 there was a \$1.80 decrease. Raushenbush concludes that the \$3.74 increase for the entire four-year period "is 7.8 per cent of the total increase in distribution costs and 3.8 per cent of the combined gift to consumers and distributors which the farmers made over the period." (Page 24 -- see also Table VII, page 24).

Highly significant is the previously mentioned drop of \$1.80 in the labour cost per "basket" in the 1953-55 period. Such a drop indicates that wage rate increases during the two years after 1953 were more than counteracted by increases in labour productivity. This decline of labour cost per "basket" also means that the increases in the marketing margin which took place in 1954 and 1955 were caused entirely by other factors --were in spite of reduced unit labour costs at the packinghouse level. The detailed figures in support of this view are contained in *Workers and Farm Income*, Table VII, page 24. I would like to say here that I have supplied the Secretary of the Commission with copies of this pamphlet "*Workers and Farm Income*" which is to be numbered Appendix "D" in this series. At the time this was prepared I had



not yet received from Washington the copies, so I could not specifically refer to the appendix; I wasn't sure whether they would arrive. However, they have now been supplied to the Commission and staff.

The figures in this table, according to Raushenbush,

"... point to a very large 'take' by those parts of the distributing sector which did not include food products workers at all. Some 92 per cent of all the money which distribution received in increased amounts per market basket, and some 44.7 per cent of the whole farm 'give-away' per food basket, are to be attributed to those parts of distribution which do not include food products workers.

"It would seem desirable for both farmers and workers to see whether there is rank inefficiency in the food distribution sector, or whether this additional money per basket has gone to 'fancying up' food unnecessarily or to higher costs of materials for packaging or trucking costs or middleman profits, or to higher labour costs in the wholesale and retail sector of distribution.

"This examination should be carried on without forgetting for a moment that the farmers gave away \$51 out of every food basket to the consumers in the form of lower prices."

The unnecessary "fancying up" of food and



related factors alluded to by Raushenbush, to the extent they exist in the United States are also substantially duplicated in Canada. They will shortly be dealt with more fully in this submission. However, one final consequence from the impact of higher wages in food manufacturing and distribution industries requires mention. This is the increased demand for goods and services -- including farm products -- which results from higher wages in the non-agricultural sector. In the previously quoted paper by Kenneth E. Ogren which was presented November 27, 1956, after observing that "a sizeable part of the increase in spreads over the past five to ten years is attributable to higher labour costs," he states:

"However, the overall rise in wage rates of all labour during this period has been reflected in a much larger increase in the purchasing power of labour. To what extent these forces are countervailing ones is almost impossible to determine" (op. cit., pp 4-5).

A year after making the statement just quoted, Ogren's formulation on the same subject was somewhat more precise and emphatic:

"General increases in marketing costs, which are much more common than decreases, do not necessarily lead to lower farm prices. Costs of marketing farm products may increase because of general increases in wage rates that are a part of a general rise in wage rates throughout the economy. Labour payments make up 70 per



cent or more of total national income, so that a general increase in wages may raise consumer demand for food enough to offset the effect of higher costs on farm prices." -- Policy for Commercial Agriculture -- Its relation to Economic Growth and Stability, Papers Submitted by Panelists appearing before the Subcommittee on Agricultural Policy -- Joint Economic Committee, November 22, 1957, page 257."

While we believe that Ogren fails to estimate the full increases that labour productivity have made in food processing, thereby causing him to exaggerate the cost-increasing effects of higher wage rates, the attention he directs to higher purchasing power arising from increased wages is surely well taken. In passing: it is unfortunate that Secretary of Agriculture Benson -- or the public relations men who prepare his speeches -- are not conversant with the carefully formulated views of USDA economists, such as Ogren, who intensively study food marketing costs. For if Mr. Benson were better informed perhaps he would avoid making public charges, as he did in 1956, that \$10 per hundred-weight hogs were mainly due to unwarranted wage increases at the processing level.

But for present purposes much more important than the blanks or blind spots in Secretary Benson's understanding is the fact that increased labour income in the food industries, as a stimulant to purchasing power is, if anything, a relatively



more important factor in its impact on the farm economy of Canada than holds for the United States. This arises out of the relatively greater importance that the food industries occupy in the national economy of Canada. In "Canada's Fabulous Food Market," Canadian Business, September, 1958, N. K. Dhalla estimates that the food industries of Canada account for one-fourth of all employment in the nation.

Of course, the enlarged demand for food, with resultant benefits to agriculture, arises from the wage-earning population as a whole -- not solely those who are employed within the food processing and distributing industries. The statements quoted from Ogren above make this clear.

But it is equally obvious that when attention is narrowed to the role played solely by the workers in the food industries, the wages paid such workers must not be regarded exclusively as a cost of production item. In principle this holds for any group of workers, no matter how numerically small. But, as Dhalla indicates in Canadian Business, employment in the food industries possesses a central place in the Canadian economy. Therefore, such criteria as low average family income and the widely prevailing substandard wages among Canadian food workers take on added practical meaning -- particularly when we think of the potentials for increased purchasing power for food and other necessities that hinge on higher wages.

Concerning this broad segment of the Canadian



consuming public which these food production workers constitute, we urge the Commission to give them the weight in its deliberations and findings that their importance justifies. Underlining our position is the nutritional deficiency suffered by a large proportion of the Canadian population. While comparisons with U.S. per capita food consumption, taken alone, would not be at all conclusive, the findings by Jean Mann Due in "Consumption Levels in Canada and the United States, 1947-1950," are indeed arresting. In this article, which appears in Canadian Journal of Economics and Political Science, May, 1955, the author makes comparisons of total average per capita income for the two countries, devoting special attention to food consumption.

Five measures of comparative food consumption provide quite different results. But the author regards Measure "F" as most valid; it takes into account per capita intake of essential nutrients and "weights per capita quantities of each major commodity consumed by its annual retail price in each country" (page 178). By this method the author found that for the period 1947-50, Canadian per capita food consumption averaged 88.8 per cent of U. S. per capita food consumption. In Canada, nutrients available for per capita consumption in food energy in calories was 92 per cent of the U. S. per capita, and in vitamin A (in international units) 78 per cent (page 178). The lower per capita food consumption which existed for the "average Canadian" in 1947-50



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should be viewed in the light of U. S. data which shows that a large proportion of the population in all sections of the country -- and including rural residents -- suffers from serious nutritional deficiencies. To be sure, some people eat too much and others, whose incomes are more than adequate, experience dietary deficiencies. But consumption studies reveal that the greatest nutritional deficiencies -- particularly in calcium, animal proteins and certain of the vitamins whose best source is fresh fruit and vegetables -- correlate closely with inadequacy of family income.



This suggests that a similar pattern exists in Canada -- only more so. Such a view assumed that any real -- as distinguished from money-- income increases taking place in both countries since 1947-50 have not greatly altered the findings in Due's study for those years. Recalling that large numbers of consumers are always "below average," when such measures as average per capita income and average per capita food consumption are employed, re-enforces the case for overcoming the widespread condition of sub-standard food consumption -- typified so strikingly, and somewhat ironically, by the great body of workers who process and distribute food in Canada.

It is in the light of the considerations just outlined that the high cost of food which the consumer encounters in the grocery -- dominantly the chain store and supermarket -- must be viewed. To be sure, nutritional deficiencies are doubtless not as severe as they were, say, 20 years ago. But the progress that has been made is not an answer to the formidable problem which still remains.

Nor do reassuring statements that current compensation for an average hour's labour will buy more food than was possible at some earlier date. This holds irrespective of the statistical pitfalls or "bugs" often present in the purported "proof" that average wages per hour will buy much more than formerly. The specific fallacies which frequently exist in claims of this nature are



discussed in "Figures Don't Lie But ..." Consumer Reports, March, 1953, p. 131. Since this analysis is brief and to the point -- and also because it directs special attention to meat price comparisons -- we are reproducing it as Appendix A. As shown in Appendix A, the dates selected for comparative purposes are usually decisive in determining whether the wage earner appears to be currently getting more or less food for his or her wage dollar than at some selected earlier date. But this does not by any means "solve" the high cost of food problem -- either subjectively as the housewife tries to make ends meet or, objectively, when the measure is a scientific standard of nutritional requirement for health and efficiency.

Thus, the high cost of food as a major element in the high cost of living continues to plague most consumers. When one looks for the places or areas in the complex marketing structure where unnecessary pyramiding of costs, waste and excessive profits exist -- and therefore where fruitful remedial measures are most needed -- admittedly complicated problems are encountered. The various elements in the marketing structure are so closely interwoven and the interaction of these elements is such that it is not easy to separate cause from effect.

Nevertheless, as stated at the beginning of this submission there is increasing evidence, in the view of marketing authorities, that the chain



stores and supermarkets play the dominant role and, increasingly, exercise the whip hand among the economic groups and forces operating in the food marketing structure.

Representative statements from the writings of marketing specialists are worth quoting at this point. N.K. Dhalla in "Canada's Fabulous Food Market II", Canadian Business, October, 1958, writes:

"... there are about 2,000 supermarkets in the country at present. (1,000 chain stores and 1,000 independents)... The chains' share of the total sales of grocery and combination stores rose steadily from the average of 26.9 per cent in 1947-51 to 37.1 per cent in 1952-56 and 42.9 per cent in 1957.

Several reasons can be cited for the growth of chains in recent years. Financially, they are well-equipped to undertake expansion and modernization. A large grocery store involves an investment of anywhere from one-quarter of a million dollars to as much as a million or more. This is too big a sum for an ordinary grocer to raise all by himself. The chains are also more aggressive in their merchandizing policies than the independents. They carry more items and are less hesitant to promote new products.



"They have, besides, the advantage of centralized planning and inventory control." (pp. 48-49).

It will be noted that the 42.9 per cent of sales in 1957 enjoyed by the chains does not include sales of the 1,000 independent supermarkets which Mr. Dhalla states also involve too high an investment for the "ordinary grocer". He envisages continued growth of the chains' share of the grocery business, forecasting that their percentage will be 48 by 1965 and their increase in sales volume 50 per cent compared with a 20 per cent increase for the "independents" which include the non-chain supermarkets (p.64). Additional developments up to 1965 are forecast as follows:

"Trends toward fewer retail outlets will continue. Large stores with sales over two or three million dollars a year will take an increasing share of the market. More and more independents, in order to meet competition, will be compelled to join co-operative and voluntary wholesaling groups. Consequently, wholesaling will become less of an independent, profit seeking function and more of an integral part of the retail organization. The movement toward vertical integration will become more pronounced. It will not be unusual to find the big national chains owning and operating bakeries, canneries, dairy factories,



"and produce packing plants". (p. 64-65).

(Vertical integration which originates with food chains in the United States is described by Professor George L. Mehren of the University of California as follows: "Most of the larger chains are integrated vertically. The 4 largest chains ... all own and operate bakeries, milk-processing plants, coffee-roasting plants, and numerous distributing warehouses. Some of these companies also operate canneries, general packaging, egg exchanges, butter and cheese factories, laundries, bottling plants, poultry and meat dressing facilities, and produce-packing plants. The largest chains, both national and regional, also maintain integrated purchasing departments." -- "Marketing Co-ordination and Buyers' Requirements," Policy for Commercial Agriculture, Joint Economic Committee, 85th Congress, 1st Session, Government Printing Office, Washington: p.290. See also the section headed "Procurement by Retailers" where the impact of chain-store specifications is discussed and the reasons for the elimination of "branch houses of national packers and of old-line wholesalers" are explained, pp. 291-294.)

These predictions of Mr. Dhalla, which seem conservative, spell an increasing dominance and control by chain stores not only over wholesaling and processing but also over agricultural producers. Strangely, the types of processing mentioned by Dhalla do not include meat packing. But, based on experience in United States, entities in Canada are likely



also to engage in meat packing. However, whether they build or acquire meat packing plants, it is to be anticipated that they and other supermarkets will increase their already considerable bargaining advantage over the packers in making meat purchases. This is because, with the rapid decline of the small butcher shop, the concentrated mass buying of meat by the chains is shifting the balance of power over bargaining away from the packers and into the hands of chain managements.

A consequence of strengthened price pressure on the packers is likely to provide an added incentive for them to exert their full bargaining advantage in dealing with livestock farmers. If packer profit margins on the wholesale prices for meat and the other food products they process are squeezed by chain store pressure, an inviting opportunity exists to transmit this pressure backward in lowered bids for livestock. For we have seen that the livestock farmer is usually in a weak bargaining position with respect to the packer.

While Mr. Dhalla gives no explicit recognition to the changing bargaining relationships in the livestock and meat industry which are definitely taking place, the implications of what he has to say about integration, quoted and underlined above, logically lead to views similar to those we have just expressed. Mr. Dhalla does manifest a keen awareness, moreover, of the general trend that is taking place in agriculture as an outgrowth of "big



chain" functioning:

"Even agriculture has not been left untouched. The big chains increasingly find that open markets, wherein price and supply are set day by day, simply cannot secure large and regular flow of agricultural products of uniform quality necessary for mass merchandising. Consequently, they tend to by-pass auctions, terminal markets, and wholesale commission markets. The contract is often signed directly with the farmer (either personally or through go-between) for regular delivery of a specified quantity of a given product at a fixed price. With their markets thus assured the farmers can afford to specialize and so increase their output at a lower cost per unit." (p. 62).

The rosy view of Mr. Dhalla, in describing the kind of chain-store integration that is carried back to the farmer, is not subscribed to by all writers on food marketing. And farm leaders have expressed fear that the outcome of the contract system which chain stores (and, before them, many canneries and other food processors) are introducing into agriculture will culminate in the family farmer becoming a new species of "share-cropper."

The drive for standardization is not merely for the "uniform quality" (referred to by Dhalla) but also for standardization in size of fruit and



vegetables. As demonstrated in a recent article, even farmers' co-operatives which were instituted as a means of providing much more control over their members' prices and products in important instances have already become, in effect, agents of the chain stores.

"The marketing problems facing producer co-operatives require more than the adjustment of packing, processing and selling methods ... The providing of product features desired by the retail segment will necessarily involve increased handling costs and increased tonnage of low-value, unsalable, or culled-out products unless correlative adjustments are made in production practices." -- "Mass Merchandising and the Agricultural Producer," by Norman R. Collins and John A. Jamison, *The Journal of Marketing*, April, 1958 pp. 365-66.

The views of Collins and Jamison are elaborated and amplified in the article just quoted. Their main concern is the increasing economic subservience that farmers are experiencing as a result of chain-store "standards." But it is also evident that consumer choices are correspondingly limited, and that consumers are being deprived of "unsalable" but palatable food.

Collins and Jamison evidence a concern throughout their article over the marked shift in marketing control and power in the direction of the



chain store:

"Striking changes are occurring in the structure of the food market. The retailer in the past decade has assumed the position of prime mover in initiating a mass-consumption orientation of the food industry. Shifts in scale and technology have resulted in retailers developing price, brand, and promotion policies and, most important of all, have increased their ability to make these effective ...

Effective retailer power means that profit determinants of the retailer are increasingly important in the description and appraisal of the entire food marketing structure. The line of effect through all industry levels is neither direct nor uniform but unmistakably present and strengthening." (pp. 357-58).

Indicating clearly the kind of "retailer" they are discussing, are figures cited by Collins and Jamison which show that supermarkets (both chains and "independents") account for only 9 per cent of all stores in the United States, and 62 per cent of sales. Supermarkets are defined as stores "making annual sales of more than \$375,000." "Superettes", with annual sales of \$75,000 to \$375,000 and constituting 23 per cent of all stores, account for



an additional 28 per cent of sales. The context indicates that the percentage applied to 1956 (p. 358).

These authors have in mind primarily conditions in the United States. But such conditions are essentially paralleled in Canada. In fact, Dhalla indicates that Canadian chain stores are in a relatively stronger position -- in part because "in Canada the corporate chains learnt the lesson from the experience of the United States, and they moved in the supermarket field before the independents could do so"; and in part "though the Canadian chain store is patterned on the U.S. model, it has surpassed the latter in efficiency". (op. cit. p. 49).

There is no point here in attempting to examine closely Dhalla's view that the chain stores in Canada are more "efficient" than those in the United States. Shortly, we go into the whole concept of "efficiency" in broader terms than equating it with profitability as Dhalla apparently does. But on the test of profitability which he applies: After all, in considerable measure there is an overlapping of companies -- for example, Grand Union, Safeway and A & P operating in Canada and Loblaw (including its large stake in National Tea) in the United States. Moreover, as pointed out by Dhalla, the chain-owned supermarket in Canada has greater relative importance than in the United States, and the resulting economies from larger volume for the average chain store in Canada may go



far in explaining its smaller gross margin on sales and its lower operating costs -- with the latter resulting, according to Dhalla, in "almost 4 per cent net profit before taxes, compared with slightly over 2 per cent in the United States." (ibid, p. 49).

One factor in lower operating costs for Canadian chain stores is so intriguing that we cannot refrain from calling the Commission's attention to it. Dhalla, citing D.B.S. data, reports that 7.6 per cent of the sales dollar of the chain supermarket in Canada for 1957 went to "salaries of executives and other employees" (ibid. chart p. 58). In the United States, the corresponding percentage for 1957 was 10.04 per cent -- Operating Results of Food Chains, by Wilbur B. England, Harvard Bureau of Business, 1958 (Summarized in Food Field reporter, Sept. 29, 1958, p. 2). The difference between these two percentages -- 7.6 per cent for Canada and 10.04 per cent for the United States -- is large enough to suggest that it may be a major factor in explaining the somewhat higher profit margin per sales dollar in Canada than in the United States. In this connection one cannot refrain from pointing out that chain-store salaries for store clerks are somewhat lower in Canada than in the United States, whereas prices charged consumers seem typically higher.

I spent two weeks in Ottawa in July and I circulated the chain stores and this may be a little peculiar, but I do a good deal of the marketing



for my family in Chicago. I would say about the only items in the chain stores here which are lower prices are your very excellent Cheddar cheese and maple syrup, both of which I am taking back to the States. Perhaps bread is a little cheaper. Strangely, the citrus fruits currently are about the same price, I was in California about four days ago, and the citrus fruits are cheaper here. I think perhaps that is because California will not permit Florida competition. I believe the statement as recorded here substantially holds that food is, by and large, in the chain stores here higher than in the States.

Substantiation that chain store profits on the sales dollar are much higher in Canada than they are in the United States is supplied by a recent article in Fortune. Figures are given showing that Safeway's profit margin, by this measure, is twice as high for its Canadian stores as for those in the United States ("Magowan's Way with Safeway", Fortune, October, 1958, p. 160).

Lest calling attention to the higher profit margin which generally holds for the food chains in Canada might be interpreted as signifying that the margin is too low in the United States, we only need to call attention to the rapid expansion in both sales per store and in number of stores per chain that is going on in the United States as well as in Canada. A round-up of information on this subject, chain by chain, was contained in a long



article by James J. Nagle in the New York Times, August 31, 1958. The heading is revealing, "Large Food Chains Pushing Expansion as Earnings Climb," and the first sentence even more so, "Super sales and earnings are encouraging supermarkets in their expansion plans."

(In Business Week, May 10, 1958, we read in an article, "The Food Chains Lead the Way"; "As usual food chains walked away with most of the honours in sales and profits". (p. 59).

These "super earnings" (profits) of the food chains in the United States may help explain why the Federal Trade Commission recently adopted a resolution announcing its plans to study the "integration and concentration of economic power at the retail level of distribution of the food industry". This study doubtless will, among other things, take a very close look at the methods and consequences involved in the national chains acquisition by merger and otherwise of supermarkets operating on a local or regional basis. But we hope the Federal Trade Commission's study is so comprehensive that it will dig deep into data revealing exactly how the chains make their high profits, what are the losses as well as the gains for the consumer and whether chain store functioning is exercising undue control over the food manufacturing industry and, beyond that industry, over the farmer.

Perhaps this is the place to urge that the Royal Commission on Price Spreads of Food Products look



carefully into the desirability of making recommendations to the appropriate agency or agencies in Canada for the kind of study of chain stores that is called for. If the Commission itself has the authority and the means to make such a study, so much the better.

Before leaving the subject of chain store profits, brief additional comment is called for. The "profit margins" cited by Dhalla of course do not at all tell the whole story. The profit rate before taxes on stockholders' equity or net worth is a much more meaningful measure. We have not had the opportunity to make a thorough check of the financial reports of the Canadian food chains. But in view of the much higher returns on stockholders' equity which exist for food chains in the United States in comparison with most types of manufacturing including the food processing industry, we assume that food chain profit rates in Canada are also abnormally high.

Profit rates, after taxes, on stockholders' equity for various types of food processing and for food chain stores are reported in USDA's Marketing and Transportation Situation, July, 1958, Table 7, p. 16. We maintain that profit rates before taxes are much more appropriate, since they much more closely reveal the profit "take" on food from farmers, employees and consumers. However, even this USDA after-tax computation shows that eight food chains in nearly every year from 1946 to 1957 have registered higher profit rates than various groups of food



processors -- with dairy products and grain mill products companies the closest "competitors". When U.S. food chains in 1957 show an average after tax rate on stockholders' equity of 14.2 per cent we are entitled to assert that the chains profited.

In a previously cited paper by N.K. Ogren it is made evident that a "small" profit of less than 1 per cent on dollar sales may well yield extremely high profits on investment: "Even though its profit per dollar of sales may be less than 1 per cent, a firm with a large volume of business and a rapid turnover may yield a handsome dividend rate and capital gains to stockholders in addition to generous salaries and bonuses to executives" -- USDA, "Trends in Marketing Costs and Practices -- The Long Term View" (November 27, 1956), p.5. Ogren's reference to "less than 1 per cent may be compared with the average of 4 per cent Dhalla reports for Canadian food chains.

(In its investigation of the meat packing industry nearly 40 years ago, the U.S. Federal Trade Commission put the matter even more emphatically: "... the public regards a 'cent' as a very small element of value. The packers seek to capitalize this habitual attitude of mind on the part of the public and insist that their profits are accordingly, negligible. This practice obscures the real facts as to profits. As a matter of fact a profit of a cent per unit far from being a small profit,



may be exorbitant profit measured in terms of capital invested. The only sound method whereby the reasonableness of a cent per pound may be determined is aggregating such a profit and comparing it with the capital invested in the enterprise. "-- Report on the Meat Packing Industry, Part V. Profits of the Packers (1920), pp. 12-13.

THE CHAIRMAN: Perhaps this would be a good time to break, we will adjourn now until 2.30.

--- Whereupon the hearing adjourned at 12.55 to resume at 2 p.m.



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---On resuming at 2.30 p.m.

THE CHAIRMAN: Mr. Cooper, we had listened to you as far as page 25. Would you proceed now, please?

MR. COOPER: Yes.

As a percentage of stockholders' equity Canadian rates are doubtless even higher than the rates in the United States -- reflecting, in part, the much higher margins cited by Dhalla. Therefore, if this Commission has not already concerned itself with an examination of profit data for Canadian chain stores, we urge it to do so. The footnote here cites the high rating as growth stock which the Financial Post places on Dominion Stores and Steinberg's and I note that it is the usual practice, I think I am correct, to regard common stock in food companies as so-called defensive stock; whereas the classification here as growth stock seems to have a good deal of significance in terms of future expansion as well as current profits.

(A significant indication of the high estimation a stockmarket annalist in the Financial Post holds for Dominion Stores and Steinbergs is his rating of the common stock of these food chains. The common stocks of each company was favourably described as attractive "growth stock". This descriptive is usually limited to companies in metals, mining and oil, whereas "good" common stocks in the food industry are more often classified as "defensive". In the Financial



Post, July 12, 1958, page 24, we read in Rodney Touche's "quarterly review": "Continuing a record of some years' standing, Dominion Stores, with an appreciation (in its common stock) since 1952 of 354.4 per cent, is still the most spectacular stock." In the Financial Post, July 19, 1958, it is stated that "the possibility of Dominion Stores expanding eventually into the U. S. and U. K. has been hinted recently by Mr. McCormack", the company's president.)

The profit records of given corporations or industries, we grant, are not the last word in an appraisal of how valuable a social service is being performed. However, the degree of integration and of bargaining advantage which is increasingly recognized as featuring chain-store policies, point strongly in the direction of a significant factor of administered prices in the chains' relations with farmers and processors.

The question arises whether this same condition exists with respect to consumers. The discussion which follows would strongly suggest an affirmative answer. However, we realize that more direct evidence than we are in a position to marshal would be helpful. Yet, we are convinced that the "circumstantial evidence" is persuasive that consumers of food are being systematically overcharged and, paradoxically, beset with so many choices that, too often, they have no choice.

The fact that, if anything, consumers are even less well organized than farmers strengthens the



case for government agencies making intensive far-reaching investigations on their behalf. In the previously quoted paper by Professor George L. Mehren in the section headed "The Food Retailers," he advances a formulation clearly indicating his convictions that a high degree of administered prices exists at the retail food store level:

"No major changes in production, procurement, or merchandising occur in a single food commodity line alone. Within a single commodity system, no major change occurs in any one segment alone. There have been sharp changes in the distribution system of the American economy as a whole. In a rapidly expanding economy, there has been a steady increase in relative volume sold through retailers, a correlative long-run decline in sales through wholesalers, a stable relative markup by wholesalers, an increasing retail markup as volume and services performed at retail have increased, and a long-run increase in the combined wholesale-plus-retail markup. The apparent relative decline in wholesaling volume to a large measure merely reflects the absorption of wholesaling functions by retailers (op. cit. p. 284. See also Professor Mehren's pioneering paper, "The Changing Structure of the Food Market," Journal of Farm Economics, May, 1957, pages 339-356.)

For present purposes, the key statement in the above is: "an increasing retail markup as volume and services performed at retail have increased." The



greatly increased volume in the rapidly growing network of chain stores, and not merely in each supermarket, would provide the basis for decreased markup. Instead, Mehren finds, this retail markup has increased with larger volume. This, we submit, is an indication of a strengthening tendency toward administered prices. More bluntly, it is an expression of monopoly control over prices -- or, in more recent parlance, of oligopoly control.

Mehren also states that the retail markup has increased as "services" have increased. This raises a more complicated issue, involving opposing tendencies. For one thing, since chain stores and supermarkets operate on a self-service basis, one exceedingly important type of service which was formerly provided, has almost disappeared. Anyone who has spent time trying to locate an illusive item among the 7,000 in a chain store or has stood in line ten or fifteen minutes before his cart of groceries reaches the checker, will fully appreciate what lack of certain services means in the chain supermarket. Again, to the extent that credit and delivery were formerly provided, valuable services have been almost eliminated from the chain store.

The "increased services" that are provided are clearly of a different order. Whether they compensate for the lost services, in the sense that they justify higher prices, may be difficult to answer with exactness. But why does a "service" -- say, in the form of more processing involved in making a meat pie or a



cake mix -- justify a higher markup at the retail level? After all, the "service" was created at the processing level -- not at the retail.

Questions of this nature raise the more inclusive question relating to "built-in maid service". The widely publicized interpretation takes for granted that no real question exists. These new-type "maid services" obviously involve marked cost increases, admirers of the chain store, such as N. K. Dhalla, hold. Not only are they worth more in terms of cost. Besides, they are worth more to the housewife; she is represented as eager to pay for them because of the convenience and saving of time they afford.

Here and there, however, critical voices are raised which sharply disagree with this chorus of self-praise which emanates from the chain stores and their admirers and apologists. On the cost side, the writings of Ogren carefully differentiate between products. He points out that greatly improved technology in bulk processing make many of the new "services" actually less costly per unit than their older predecessors. Therefore, by no means all types of "built-in maid service" entail higher costs of production and therefore justify higher retail prices.

A penetrating evaluation of the conventional claims about "built-in maid service," together with related matters, is contained in "Where Does Your Food Dollar Go? 'Built-in Maid Service' Fails to Explain the Growing Cost of Distribution," Consumer Reports, March, 1956, pages 139-142. The article is



so "meaty" that it's difficult to provide an adequate summary; therefore excerpts have been selected which are reproduced in Appendix B. The main thesis advanced in the article is well stated as follows:

"Since the end of World War II, the substitution of promotional competition for price competition has characterized the sales strategy in many lines of goods. In the food industry this shift from price competition has resulted in a veritable explosion of wasteful distribution expenditures" (page 140).

In developing this thesis, cogent observations are made on the "battle for shelf space," "impulse buying," the pyramiding of advertising costs -- including "the come-on in the form of an advertising allowances," and the excessively costly and gaudy packaging that represents a "service which most consumers have never asked for.

Even spokesmen for the food industry on occasion express misgivings about some of the "built-in" features of the present marketing system. Concerning advertising:

"At the last annual meeting of the Grocery Manufacturers of America, one of the chief speakers said: 'Sales increases are not being registered in proportion with the great increases in promotions. A manufacturer, once started down the primrose path of promotions, is forced to devote larger and larger percentages of his production to successive consumer



promotions just to keep even with last year's sales'" -- "The Gray Flannel Couch", Consumer Reports, March, 1958, page 160.

This doubt over the beneficent results flowing from the billions expended on advertising to promote the sale of food, commonly regarded as a necessity, is not new. Economists, particularly specialists in consumer economics, for a long time have sharply challenged the easy assumption that astronomical "competitive" advertising expenditures which attempt to induce consumers to buy one brand of soup or of ham, etc., rather than another, can possibly expand physical sales volume. On the contrary, the conclusion to be drawn from the self-criticism of the above-quoted speaker at the Grocery Manufacturers' meeting is that advertising for food had gone beyond the point of diminishing utility -- that it had become negative, and therefore might well be causing curtailed food consumption.

(Compare this statement by D. B. DeLoach of USDA's Marketing Service: "Expenditures of this type must be recognized as an important cost item in the food trade. The high cost of sales promotion efforts likewise have been a factor in encouraging business concentration, thereby making it possible for such expenditures to be allocated to high volume rather than low volume operation" -- "Marketing Costs Going Up," in section headed "Advertising", (page 7), Annual National Agricultural Conference, November 19, 1957, Washington, D.C.)



Heavy advertising costs are a burden on farmers as well as consumers: ". . . the heaviest sales pressure tends to be for those highly processed products where the farmers' share of the retail price is lowest". (See Appendix B).

In a searching appraisal by Professor V. Lewis Bassie, "Easy Come, Easy Go," we read:

"A New York Newspaper recently purchased by the author carried a full-page advertisement of strawberries. The picture of the fruit was printed in red, under the caption, 'You can actually smell the strawberries on this page. Try it!' Sure enough, the fragrance was strong, even without bringing the paper close to the nose.

"This is mentioned merely as an illustration of a growing complex of devices intended to entice the consumer to spend. They result from the concerted effort of rapidly expanding staffs of salesmen, advertisers, market researchers, innovators, designers, psychologists, and consumer motivators. If a product is not desired for itself (at its price, of course), it is put into a package that will sell it anyway. Industry is sparing no expense in trying for a 'revolution in selling'. Some insist that the future depends on it." Illinois Business Review, September, 1957, issued by the Bureau of Economic and Business Research, University of Illinois.

After enlarging on this statement and pointing



out that the number of production workers employed in manufacturing declined in the United States from 1953 to 1957 by one million while total service employment increased by three millions, Bassie continues:

"One may wonder why able, sober businessmen tolerate the expansion of dubious distribution and service costs. The hard-hitting executive who pounds the desk to force the engineers to whack another nickel off of unit production costs may authorize without blinking the expenditure of a dollar per unit for a single advertisement; and he may budget millions in development expense, without prospect of direct return in the hope of hitting on something new or getting a toe-hold in the other fellows' business."

Another article, "The 'Hard Sell'," by Professor Bassie is worth quoting. After paying his respects to a wide range of selling and advertising "gimmicks" and declaring that "the razzle-dazzle of this selling effort is directed mainly toward the fullest possible exploitation of human weaknesses," he makes telling observations on the "package makers paradise". Since food retailing, chain-store style, is featured by a multiplicity of packages so artfully designed and displayed that the housewife is constantly confronted with lures or traps designed to make her buy on impulse -- that is, against her better judgment -- Professor Bassie's remarks on



packaging deserve close attention:

"Package Maker's Paradise"

"Closely related to other practices comprising the 'hard sell' is the notion that everything has to be dressed up in a fancy package. The designers are engaged in an all-out battle to create an illusion of value where none may exist. This battle exploits new materials -- metals, plastics, paper, and glass, alone and in combination.

"Excessive packaging is inherently wasteful. The primary justification for it is supposed to lie in the fact that the new packages reduce spoilage or deterioration. No doubt there are some other advantages as well. But against any saving of product that it may achieve must be counted the cost of the materials and the labour of enclosing the goods. In food retailing, the real need for some of the new packages is actually less than ever before, since refrigeration is now so generally available. The effort is carried to the point of absurdity in packaging individual pears in separate transparent bags, with individual handles that also serve as price tags. It is made ridiculous by enclosing bars of soap in gold foil. This kind of thing may create a paradise for the package maker but hardly anyone else can gain.

"A point not usually mentioned in connection with these packages is that they not only protect



but conceal. A product in a 'transparent container' may be concealed on all but one side. Little windows are hardly adequate for judging quality. So far as this concealment is a means, not of preventing spoilage, but of transferring it to the buyer, it is wholly without justification.

"Furthermore, the package tends to restrict the consumer's choice. The housewife cannot get three good tomatoes without buying six because it is likely that at least one is not presentable in each box. She cannot get a handful of medium-sized onions, because the packages are made up with many more, including all sizes. She finds herself back in the days when the individual grocer was impartial -- that is, more or less so -- in distributing some of the inferior quality with some of the better in each bag. It is a long step backward from the self-service principles on which the modern supermarket was founded. In meat departments, where wrapping is necessary in any case, the buyer may find packages to his liking. But the stores are no longer equipped to serve efficiently those who want something a little different. The result is, in effect, an attempt to make all consumers conform to the average."---Illinois Business Review, May, 1956, pages 2, 6.



If I may pause here to elaborate on one or two points which are not mentioned here. My good wife when she read that over reminded me that one of the developments in packaging is to make smaller containers, smaller amounts, with fewer ounces in them, and then almost immediately, or shortly, the price is adjusted to the old price that was charged.

I can remember away back a pound can of evaporated milk was reduced to 14½ ounces and the price remained the same. Well, this is developed again and again.

I have had some bad experiences in this matter of spoilage that Bassie mentioned. With a sack of oranges, for example, trying to inspect it on the outside and getting home and finding one is bad, or with a tray of grapes and finding at the bottom of the tray some are spoiled.

One other little point. I am informed by somebody who should know in the baby food industry that the package or container typically costs more than the contents -- that is to the manufacturer typically costs more than the contents of the container.

The views expressed by Bassie require little comment. His critique runs counter to the preponderance of opinion which is expressed by most spokesmen for the various segments of the food industry -- although we have seen that strong misgivings are occasionally voiced by food industry spokesmen. Since Bassie's specific references to

consumer packaging of fresh fruit and vegetables may perhaps seem questionable, the following statement on packaging waste by Dr. L. G. Gilbert, Agricultural Economics Department, Reading University in England is worth noting:

"The only evidence on wastage comes from the United States. It has been shown that the average loss for all vegetables was 8.2 per cent from bulk and 18.5 per cent from prepackaging; for fruit, the corresponding figures were 10.1 per cent and 13.9 per cent respectively. The prepackaging in this case was carried out at the retail end, so that wastage was reduced to a minimum. It is thus clear that prepackaging may not be a means of reducing wastage but rather a cause of increasing it." -- "Problems of Prepackaging Horticultural Products," Agricultural Review, May, 1957, page 3. (See also the section headed "Economic Considerations". Note: Dr. Gilbert cites as his source a Cornell University Experiment Station bulletin by Goodwin).



In contrast to the dominant trend toward "fancier" packages and ever higher outlays on packaging there appear to be important exceptions. Possibly the situation in Canada with respect to marketing fluid milk at retail is different from that prevailing in the United States. However, the following statement seems worth considering:

"Perhaps the least expected but quite logical result of milk price-fixing under state law has been that fluid milk has become the Orphan Annie of the grocery store. No special sales. No new and exciting packages. While other super-market products are decked out in new packages, with premiums galore to attract the impulse buyer, with two-for-the-price-of-one offers blazoned on big streamers in the window, with glass dishes for cottage cheese, special deals for evaporated milk, store demonstrations for dried skim milk products, fluid milk packaged in leaky ugly cartons has been deprived of a part of the big ring." -- "Milk Marketing", Consumer Reports, Aug., 1955, p. 383.

(In this unsigned article, before stating the above, the writer endorses legislation which supports dairy farmers' prices. He maintains that the two-price system for milk at the farm level creates profit inducements for big dairies to



push manufactured products but not fluid milk.)

Much of the quoted comment above on distributive wastes is couched in critical terms. However, even the more familiar laudatory accounts of the newer developments in food retailing sometimes contain phrases and formulations that, as the saying is, "let the cat out of the bag." In an article "Changing Patterns in Food Retailing," which appears in the National Industrial Conference Board's Business Record, March, 1958, in a section headed "Innovation and Invention", we read:

"Innovation and invention have ranged from minor details making for greater shopping comfort to new products that have received almost instantaneous acceptance ... Food shopping which in years gone by was accepted by the housewife as at best a routine chore, has assumed a creative quality in the super-market, new product age. And self-service, selection of products from the shelves, has given release to the desire for experiment and 'impulse buying'." (p. 120, underlining added: the authors are Fabian Linden and Seymour Schwimmer).

Since when, as seems to be implied in this statement, is buying food "on impulse" to the advantage of most housewives and their families? This assumption that "impulse buying" is for the benefit of the housewife is not quite expressed by N.K. Dhalla. But he does make clear that such buying



is to the great benefit of the chain store. Under the heading of "impulse Buying" Dhalla writes:

"Powerful advertising and promotions are employed to induce customers to come to the store. Once they have entered, every stratagem is used to encourage impulse buying in order to boost the shopper's average purchase.

The store is arranged in such a way as to get customers to pass all displays. Operators try to place demand items strategically so as to 'force' shoppers to take certain aisles. For example, recognition of meat as an important over-all sales builder has influenced most of the operators to place the meat department at the rear of the store in order to 'pull' the traffic past all the merchandise displays before reaching the meat section.

Layouts are designed to take drudgery out of food shopping. Colour plays an important role in creating an individual and distinctive shopping atmosphere. Different colours are used to identify the different departments and to break up the monotony of the long walls. The floor too, on many an aisle, is broken up by patterns which create an illusion of compactness rather than of interminable length.



"Shelf position is selected with care. The operators see to it that their 'splurge' items on which their profit margin is highest, tend to be at the eye-level. Another stratagem is to pile up big mark-up articles in a huge pyramid at the end of the aisles. Experience has shown that any item erected into a solid display will sell perhaps three to four times faster than the same item placed on regular shelves. Related-item selling is another device frequently adopted to increase sales of certain products. Under this method, products which are used together are grouped together (e.g. cookies with ice cream). In this way the displays do their own suggestive selling.

Other inducements are also employed to encourage the shoppers to stay longer and purchase more. They are air-conditioning, fluorescent lighting, refreshment booths, and even miniature 'midways' for children. In short, nothing is spared to turn an ordinary visit of a customer into a buying spree.

Experience, however, shows that in many cases the housewife's budget is usually flexible. The long-term effect is, not to reduce subsequent food-store purchases, but rather to eliminate the purchases of many non-food items to whose temptations she is less frequently exposed." (Canadian Business, October, 1958, pp. 56,58; underlining added).



I am tempted at this point to refer to "Hidden Persuaders", a book which some of you may have already read. There was an interesting two or three pages in it relating this happening: There was, of course, knowledge that the housewife was very much subject to impulse buying, but it was desired to find out how this happened -- what set her off on this buying splurge. The device which was used was to set up hidden cameras around the store, and the index -- if you may call it that -- which they had assumed would apply, was the eye-blink rate of the consumer; that is, nervous tension is supposed to be measured by the rate of eye-blinking: 32 being normal, and much above that indicating increasing tension, and below that something else. The assumption was that the housewife's tension would grow greatly as she circulated in this supermarket because of all this variety of attractive things, and probably the tension of trying to choose. On the contrary, it was found that her eye-blink rate became much less, and then the conclusion was that she was in a milk state of hypnosis as she circulated through the food store; actually, so much so, that in some cases she looked directly at the camera and didn't see it, and in other cases she would bump into friends and wasn't aware who they were, until she began to approach the cash register, and then her eye-blink rate began to increase greatly.

Again referring to my wife, she said, when I related this, "You make it appear as if



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this was entirely a woman's problem." In all fairness, I should say that in "hidden persuaders" it is indicated that men are greater sufferers than the women when it comes to negotiating the chain store.

One cannot read this statement by Dhalla without realizing more clearly that for a large proportion of the chain-store customers, the cards are stacked against them. The consumer's better judgment which often leads to "sales resistance" is increasingly overcome by stratagems designed to evoke "impulse buying." And to make these stratagems succeed, lavish expenditures are made by both food processors and chain stores. Such costs, together with those for inflated advertising outlays and pyramided pre-packaging costs, must be borne by the ultimate consumer in inflated living costs. Previously discussed chain store rates of profits inevitably point to that conclusion. There is an accretion of a wide range of wasteful "costs", and superimposed on these are super profits.

The rationalization appears to be harboured by food industry spokesmen that the somewhat over-worked abstraction, "the housewife", receives a great psychic lift from her "impulse buying". But the circumstance that some housewives -- and, even more, their husbands -- may "desire" or even "enjoy" the experience of being fleeced when they lay out their food dollars is beside the point. In practical terms, the housewife frequently has



no place else to go. For few small 'corner groceries' remain, for the very good reason -- as we have already noted -- that their owners cannot obtain the capital to permit them to become big. They therefore cannot sell on a volume basis and, at the same time, seldom can they obtain the advantages of mass buying. Moreover, on a unit basis, the small store's food items are also typically overloaded with the same accumulation of wasteful costs arising from advertising and prepackaging.

The Journal of Retailing, Summer, 1958, carries an instructive article: "What Influences Customer Choice of a Food Store". The article by Professor Newell W. Comish, is based on a survey in Seattle, Washington, where food chains account for 55 per cent of grocery sales. He reports that consumers mentioned these factors as determining choice: "Store is close to home", 43.7 per cent; "low or competitive prices", 40.9 per cent; "quality of fresh meat", 28.7 per cent; "wide assortment", 25.7 per cent; "convenient parking", 25.5 per cent; "can get everything in one store," 25.5 per cent; "honesty", 11 per cent. Note that most of these qualifications are limited to chain stores, and that a combination of such qualifications may easily outweigh that of a location "close to home", frequently applying to the small corner grocery. The high importance attached to "low or competitive prices" must be viewed in the light of these observations by Comish:



"The typical family does not compare prices methodically and would be hard pressed to prove that one store has lower prices than another. What, then, provides the consumer with the impression that one store has lower prices than another. Well-advertised leaders each week serve to develop this impression. A second method involves care in maintaining competitive prices on staple items (such as butter, milk, eggs and soup) which are often used as the basis for price comparisons by the typical consumer". (p. 91).

(Professor Comish expresses surprise that so many consumers (11 per cent) mentioned "honesty": "This seems surprising today when ethical operations are assumed by many in the trade to be almost standard. Perhaps there are more merchants than one might suspect who indulge in sly tricks to catch the unsuspecting customer. The figures show that more than one in ten customers either have been cheated or know of others who have been deceived by such acts. This is not a good recommendation for the retail food industry". (p. 93)).

When viewed in correct perspective, the fact that consumers increasingly turn to the chain stores, thus is not an indication at all that "bargain" -- not to speak of "low" -- prices are the magnet which draws them. Instead, the consumer is increasingly caught in a web of marketing



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practices, including the last word in "depth psychology" and all other attributes of scientific selling, which leave few, if any, alternatives. The seriousness of this is enhanced when one keeps in mind that the great bulk of consumers have small incomes.

In this connection, recall the statement in the final paragraph above from Dhalla: That under skillfully created "impulse buying" the housewife's food budget has become "flexible" and we are told, in effect, that she is induced to curtail spending on other necessities in order to buy types and forms of food which, presumably, the family often would be better off without.

In substance, this break-through on the consumer resistance front evidently involves a major modification in the familiar assumption that the demand for food is highly inelastic. However, unfortunately for any gains for farmers this might seem to have because of greatly increased demand for agricultural products, the increase largely takes the form of "qualititative" changes. However, these changes in large measure take the form of fancier packaging and other questionable "services" -- not to speak of mounting promotional costs. More dollars are spent but corresponding consumption gains in either quantity or quality (for example, for more livestock products and fresh fruits and vegetables) are not attained. Support for this view is contained in the previously

quoted National Industrial Conference Board article
by Linden and Schwimmer:

"According to orthodox conceptions, relatively less food is purchased as income goes up. But that principle was dramatically inoperative in the post-war market. Whatever may have been the relative lag in the physical volume of consumption was more than made up by the drift to better quality, to new products, to the more expensive and prepared commodity. The industry is now firmly in the business of selling luxury and service. And the large year-to-year increases that continue to be rung up in sales of luxury and processed foods indicates that that facet of the food business is still in its early growth phase. The dynamic growth of the food industry generally seems likely to continue, even though its growth pattern may be somewhat more erratic. With an ever larger share of the food dollar going for frills and convenience, the industry is likely to become increasingly sensitive to the moods of the business cycle" -- changing patterns in food retailing," Business Record, March, 1958, (p. 121; underlining added).

(Compare N.K. Dhalla:" ... the per capita food expenditures, even in constant 1957 dollars, have shown a steady increase. They averaged \$262



in 1947-51 period, \$270 in 1952-56 period and \$290 in 1957. Since the intake of food by an individual has not varied much during the last decade, it is obvious that the higher expenditure is due in large measure to the special facilities and services provided by the processors and packers to consumers. Like the auto manufacturers, the food industry is expanding its gross business by selling more and more 'extras'. "--Canadian Business, September, 1958, p. 45. Some readers may feel that Mr. Dhalla's auto industry analogy is not an altogether happy one -- in view of the increasing volume of criticism directed against "extras" and related forms of price-padding that most car manufacturers are encountering.)

On this matter of inelastic demand for food, I would like to note that shortly before coming here I became aware that a doctor's thesis is in the course of preparation at the University of Chicago which, in effect, is a critique of the market basket -- the conclusions that may be drawn from the market basket data which the United States Department of Agriculture puts out. In brief, the writer is attempting to gather data to take a count of the increase in service element in a great variety of foods that are provided, and his conclusion is now -- I don't think it is tentative; it is quite definite -- that the modern merchandising methods have found ways to break through the familiar fact and perhaps the familiar interpretation that



the demand for food is inelastic.

Incidentally, the Department of Agriculture itself has made a study on meat as far back as 1952 which showed -- I beg your pardon: This is a Canadian study, which shows that at the retail level the demand for meat is relatively inelastic, and at the consumer level the elasticity is a little more than unity. Since meat is such an important item in the home food budget, I think that fact has great significance. I would like to elaborate on this whole matter of meat, but I am also aware that I will be using time.

With regard to the prediction in the last sentence, relating to increasing sensitiveness "to the moods of the business cycle", this may ultimately turn out to be correct. But, to date, the record shows that the food chains are "recession-proof". We believe we are correct in saying that every interim report for each of the leading food chains in Canada reveals higher profits in 1958 than the year-earlier profits for the corresponding period. N.K. Dhalla indicates how stock exchange quotations reflect this highly profitable condition: "Every one of us is a captive customer, rain or shine, boom or bust ... during the recent recession, the food and allied group of stocks was the only one on the stock exchange whose value was higher than it had ever been before" -- Canadian Business, September, 1958, p. 54.

Perhaps this analysis may seem to have



stressed unduly the profit factor. However, what D.B. DeLoach writes about the food industry in the United States surely applies with equal if not greater force to the industry in Canada. After reviewing the data, he states: "... profits cannot be considered an inconsequential item in the food marketing bill." -- "Costs of Marketing Major Farm Crops", Policy for Commerical Agriculture, (November 27, 1957), p. 268.

Mr. DeLoach, we think, evinces restraint to the point of understatement -- perhaps to be explained in part by the fact that he was speaking for USDA's Agricultural Marketing Service and in part because the context shows he was discussing all segments of food manufacturing and distribution -- and not just food chain corporations. But, for present purposes, the significant feature is that DeLoach clearly regards food industry profits as a consequential item in costs to the consumer -- and not a residual that has no important effect on retail prices.

How sizable food industry profits are is made evident by DeLoach in another way: "The fact that the food industry generally is able to finance its expansion program without going into the open market for money is highly significant in terms of the ability of management groups to control the use of earnings and operating policies of their respective organizations." -- "Marketing Costs Going Up", Op. Cit., p. 4.



In the literature on the food chains this statement by DeLoach is repeated many times. To the extent that the super profits of the chains result from unnecessarily high food prices charged consumers, the practice of financing rapid expansion through "plowing back" profits is to be condemned. For it means that consumers, preponderantly of low and middle incomes, in the final analysis are providing the funds for chain store expansion.

We have previously stated that the circumstantial evidence is that the food chains in Canada administer prices and constitute an oligopoly -- citing the excessive profit on stockholders' equity as the most persuasive evidence for this view. On this issue, an article entitled "Giant Grocery Retailing and the Anti-Trust Laws", by Werner Z. Hirsch and Daw Votaw, throws much light. The article appeared in the January, 1952 issue of Journal of Business which is published by the University of Chicago. The discussion deals extensively with the anti-trust suit against A & P which was instituted by the United States Department of Justice, but the discussion is by no means limited to the A & P record and experience. Since the case arose under U.S. law, space will not be taken here to detail the evidence that is cited by Hirsch and Votaw. However, the evidence for the conclusion that the exercise of economic power by the giant chains rather than their economic efficiency is the chief explanation of their



growing dominance, would appear to have relevance in any appraisal of the food industry situation in Canada. Significant also are their findings that one chain frequently tends to be dominant in a given geographical area and that, not infrequently, an independent super market operates so effectively that the giant chain carefully refrains from establishing a store near the independent.

(On the use of the word "giant", the authors state: "It is our feeling that the word 'large' has lost much of its precise meaning. Many grocery firms can be classified as 'large' without being of sufficient size to justify an analogy to or comparison with A & P or the larger grocery chains". (p.1)).

In this footnote they use the word "giant" and it is explained here, and it may be of some interest.

This of course does not prevent the giant chain from frequently buying up the stores of a local or regional firm -- a form of expansion in the United States which appears to rival or possibly surpass that of constructing new stores.

The integration in the food industry which, we have seen, is increasingly spearheaded by the food chain stores, was noted and viewed with concern by Hirsch and Votaw in 1952 -- although their attention centered primarily on the integrating activity of individual chains.

(As we have seen from the articles by N.K. Dhalla in Canadian Business, the proliferation of



integration, under chain store guidance throughout the food industry, is looked upon with approval by food industry spokesmen. Another strong endorsement is found in the lead editorial of Canadian Grocer for May 24, 1958. It is entitled "Closer Integration of Trade is Bound to Come." Besides anticipating a more dominant role than ever for the large store, most of the tendencies in retailing which add to unit costs are approved. This warning, if accepted, would operate in the same direction: "retailers who reduce very much the variety of brands will be likely to lose sales". (p. 17).)

The conclusions we draw from our survey of the growing dominance of the chain stores in the food marketing structure is that the rank and file of consumers are increasingly disadvantaged as purchasers of food. Not only do they not possess any bargaining power with respect to retail food prices. They are more and more misled or wrongly "educated" into buying "fancies" food "frills" at inflated prices.

Since good nutrition is so vital and because food outlays for nearly all families represent a large proportion of limited family budgets, and also recognizing that consumers have even less protection through self-organization than farmers, much more extensive safeguards, through government action, are required on their behalf. To be sure, more and more consumers are organized as producers -- for example, in labour organizations. But beneficial



as such producer-oriented organizations are in increasing family income and in providing security, by ~~the~~ their very nature they do not have means or the "know-how" to overcome the complex array of scientifically created and lavishly financed snares and lures for parting the consumer from her dollars when she is exposed to the wonders of the super-market.

As for the position of the farmer in the food marketing structure, Collins and Jamison in their analysis of the ever-growing dominance of the food chains, appear to have well described the existing situation: "Organization and operation of the marketing system are major determinants of farm demand. Farm level demand may be considered a 'derived demand' but not in the usual, strict sense of a net price-quantity relationship. Marketing distribuion costs are not determined in a perfectly competitive market and then subtracted from the consumer-demand schedule to obtain the producer-demand schedule". --

On the basis of the above analysis, we respectfully submit a number of questions for the Commission's consideration:

1. Do existing chain-store direct buying policies, through contract with individual farmers and otherwise, provide equitable arrangements for Canadian agricultural producers?
2. Are there indications that chain-store



price pressure on produce merchants, canners, meat packers and other food processors results in lower prices to farmers than would otherwise exist?

3. To the extent that chain-store pressure of the kind indicated in Question No. 2 succeeds, thereby resulting in lower costs to the chains, are there corresponding benefits which are passed on to consumers in lower prices?

4. What are the specific ways, if any, that chain stores -- individually or concertedly-- employ in exerting price pressure on food processors? In exercising any such pressure, is there a general method or procedure, or do methods vary, depending on such considerations as the nature of the food product and the size of the processing firm?

5. To the degree that economies are obtained by chain stores in acquiring products from food processors, are resultant equitable price reductions made by the chains to consumers?

6. To what extent do huge advertising outlays which seek to increase consumer demand for specific food items, create an increase in the total demand for food? If so, to what extent, if any, do (a) farmers benefit through increased demand for agriculture products and (b) consumers benefit in lower



prices made possible through mass production economies?

7. If the answer to (a) and/or (b) in No. 6 is in the negative, do huge advertising outlays appreciably increase prices charged consumers for food? If there are pronounced differences in this respect among different types of food, what is the nature and cause of such difference?

8. What role does the increasing preference of chain stores for their own "private brands" play in causing ever-increasing reliance by food processors on advertising to create and maintain demand for their own brands? What is the net effect on average prices charged consumers, for example, for a pound of bacon or a can of salmon?

9. What are the criteria for determining the allocation of shelf space and other forms of display in the food chain store? Do farmers and consumers gain through the application of these criteria?

10. What is the net effect on consumer prices of the extensive pre-packaging which prevails particularly in food chain stores? Do consumers "demand" the degree of pre-packaging which now exists?

11. Is the net effect of extensive consumer pre-packaging of fresh fruit and vegetables to reduce or increase spoilage



and other forms of waste? A subsidiary question: Is the practice common of deliberately placing spoiled or semi-spoiled products in consumer packages in order to "move" such products?

12. Are there costly avoidable wastes in terminal produce markets which appreciably add to consumer prices? If so, what are the measures needed to eliminate or greatly minimize this source of unnecessarily high prices?

13. To what extent is food chain store mark-up applied on a percentage or fixed cents per item basis? If the percentage method is found to prevail for such high priced items as meat, is it feasible to substitute relatively fixed amounts per pound or other physical unit?

14. Are such advantages as the chain stores obtain in the large quantity purchases of meat from packers, together with the economies of mass distribution, passed on to consumers to any significant degree?

15. To what extent does price competition exist among competing food chains?

16. To what degree is the selection of a food chain store location -- where existing stores are purchased as well as where a new store is built -- motivated by a desire to keep competition from other chain stores or independent supermarkets at a minimum?



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17. What are the implications for farmers and consumers from the fact that the rapid expansion of food chain networks in Canada is financed largely through the re-investment of profits?



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COMMISSIONER WALTON: I do not have any questions; it is just an observation. On page 40 you ask the question:

"Are there indications that chain-store price pressure on produce merchants, canners, meat packers and other food processors results in lower prices to farmers than would otherwise exist?"

In your first eighteen or so pages I would assume from the references you quoted and the research you have done that you might subscribe to the opinion that has been expressed to this Commission by other briefs, that you perhaps would think that the magnitude of the size of the retail chain store, the pressure tends to have a downward pressure on prices that producers receive?

MR. COOPER: Yes.

COMMISSIONER WALTON: Thank you.

COMMISSIONER COUVRETTE: At the bottom of page 36, the footnote, in 1957 the food expense per capita was \$290 in the United States; that is what it says, is it not?

MR. COOPER: That is Canada.

COMMISSIONER COUVRETTE: Well, Canada, I presume it is probably a little higher now but probably not to any great extent. We can agree on that -- it is probably not much higher. Let us take the 1957 figures. Now, does not the whole question boil down to how much profit is made along the line on a \$290 a year bill from producer to



consumer and how much of it could be saved?

MR. COOPER: Well, I think that would be part of the question. Of course, I have tried to develop the point. Perhaps I have not been explicit enough, that a very large proportion of the consuming public would spend either (a) spend more if they had the income or (b) that the amount they do spend should result in a larger physical volume of food per capita. In other words, to the extent there is a growing percentage of this expenditure which represents promotional costs, prepackaging, advertising, and so on and so forth, there is that element of what I have described as waste, well, others have described it as waste as well as whatever the profit may be in the respective amounts.

COMMISSIONER COUVRETTE: Yes, but the old problem is, sometimes you have a yearly \$290 food bill, whatever that is being wasted was going into too high profits; is that correct?

MR. COOPER: Yes, that is true.

COMMISSIONER COUVRETTE: You have no way of estimating that?

MR. COOPER: No, not in the sense of segregating. The whole emphasis on the role of the chain store would indicate that its share of this is a disproportionate share in the form of profit, and with the development of food marketing in the manner it has, and particularly since the war, involves a large element of waste -- or put it this way, that the consumer is not getting for his or her dollar what he or



she is entitled to.

COMMISSIONER COUVRETTE: Yes, but what I am trying to find out is to try and enunciate that in dollars and cents if possible -- for instance, let us take one item. You mentioned prices at chain store level, well, what are the gross profits before taxation, three point something per cent?

MR. COOPER: I think this is one of the things I said I had not looked into. I know in the United States they were 14.2.

COMMISSIONER COUVRETTE: That was on investment?

MR. COOPER: Yes.

COMMISSIONER COUVRETTE: But the food bill is sales, is it not, it is sales to the consumer?

MR. COOPER: Well, it is both.

COMMISSIONER COUVRETTE: It is both but in order to reach the profits on investment you start from investment on sales ---

MR. COOPER: Well, you might start from them, but I start the other way.

COMMISSIONER COUVRETTE: Well, let us try it my way -- start with profits on sales?

MR. COOPER: I would say they are 3.5 per cent, let us say -- it says 4 per cent for sales.

COMMISSIONER COUVRETTE: All right, 4 per cent. Now, it is probable we would not expect someone to say that they may be 2 per cent too high; maybe that would be a fair figure. It would represent only about \$6 per head out of profits going to that chain



store that should not go to profits; is that right -- per year?

MR. COOPER: That is right, if you will -- if profits were the only element, but I think two-thirds of this submission attempts to develop the point that it is wasteful forms of cost on which are superimposed excessive profits.

COMMISSIONER COUVRETTE: Well, of course, profits at two or three different levels, at least?

MR. COOPER: Yes.

COMMISSIONER COUVRETTE: They would have to be added. We do not have the figures here, and some wastage as you call it -- some call it necessities -- at any rate, anything applies to a percentage of \$290 for the food bill per capita; whatever it is, we cannot find out today. Is that right?

MR. COOPER: Yes.

COMMISSIONER KIDD: The question in these terms of unit, defining unit as a person, or put it the other way around, relating it to ---

MR. COOPER: Yes.

COMMISSIONER KIDD: Could you comment on that?

MR. COOPER: Well, that internal amount, the significant thing there for me would be to get back to the return on investment. In reference to this article by Dhalla in Canadian Business, he says in the chain store the annual rate turnover is 225 in the meat department, 175 times for fruits and



vegetables, 45 times for frozen foods, 30 times for groceries, and 13 times for non-food items. Of course, I was interested there chiefly in the turnover on meat. When you take out Sundays and holidays this means a turnover on meat almost every business day of the year, and I suspect along with the fact that he says that 25 per cent of the total sales of the chain store are typically meat, if this were analysed in all its facets I think you might find he has some explanation, a very major explanation for the high cost of meat as the consumer encounters it. If I may on that, the volume factor of course enters in and a study was made in the United States in 1952, and, therefore, it is out of date now, particularly since self-service has become so important in the chain meat department. However, the results were something like this. Exactly as follows: where the store does 1000 pounds or less volume per month the operating cost to the store is from 20 to 25 cents per pound. When the store does 4000 pounds or more per month, this is meat, the operating cost drops to between 8 and 9 cents per pound. Now, I suspect that this is not passed on in any similar ratio to the consumer at all. I have met people in Ottawa who say that they cannot afford to buy meat in the chain store; they get it somewhere else.

COMMISSIONER DRUMMOND: I think Mr. Couvrette covered most of the key questions already, but in the list which you yourself enclose at the end of the brief I would like to ask one or two questions. You refer



to this question of inelasticity or elasticity, whichever it is -- the demand for food products. You, of course, are well aware that in recent years in both the United States and in Canada there has been a marked increase in consumer income, in consumer spendable income, and this has resulted in a very significant shift in consumption of certain types of food products to certain other types of things, for instance, like meats, which you specifically mention. The increase per capita in consumption of meat has been very marked.

What I am wondering is this, what do you think about this suggestion that this shift might be interpreted to mean or to be the equivalent of a tentative expansion in the demand? In other words, you can say for the time being there was a very considerable degree of elasticity of demand for these things that are being consumed in greater quantities. If that was so you would have to say there was a corresponding change in the elasticity of the other types of commodities which they are being substituted for. What do you think?

MR. COOPER: Well, I am not sure I follow this entirely. I agree certainly that as incomes increase -- that is, real incomes -- when the price deflator is applied you might have a natural increase in purchasing power, particularly for the higher priced foods such as meat and dairy products, that families will spend more.



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I call to mind one rather interesting kind of evidence on that, that the Department of Agriculture in the United States discovered where for incomes of people of \$1,000 -- comparing these with \$1,000 or less per year, and an increase of \$1,000 or \$2,000 will mean an increase in the quantity of about 59 pounds of meat.

In the southern part of the United States it means more -- 127 pounds increase -- whereas for incomes over -- I think at that price level, as this was in the early 1950's -- for incomes of over \$4,000 all of the increase goes into better cuts, more expensive cuts rather than quantity.

COMMISSIONER DRUMMOND: Would it be fair to sum this up in this way by saying for certain cuts or for certain items you might have a tentative quite pronounced degree of elasticity of demand but that for foods all lumped together, that is all foods, you may still have a very pronounced degree of inelasticity?

MR. COOPER: Well, relatively so, and yet again -- well, these figures cited in the footnote for Canada -- you see, these were in constant dollars of the same purchasing power. They do show, nevertheless, assuming that real income was increasing in this three or four-year span, they do show nevertheless in dollars of constant purchasing power there was an additional average amount spent on food.

Now, if there had been complete inelasticity that would not have happened. In fact the



reverse would have happened. The United States shows the same.

COMMISSIONER DRUMMOND: Just one other question. This is of a very general nature. A great many of your references are necessarily American references?

MR. COOPER: Yes, sir.

COMMISSIONER DRUMMOND: To some extent the developments in the United States have preceded those in Canada. I am wondering what your view would be on two things: first, as to the degree of appropriateness of United States evidence relative to the Canadian development, and secondly, as to the extent to which the evidence which you have found -- and you have certainly found a lot of it -- is of such a character as to warrant us drawing pretty positive conclusions from it?

MR. COOPER: Well, I think they are very similar in some respects. As far as I can gather, isolating the chain store factor, the chain store represents a bigger element in the Canadian picture than it does in the United States. On the other hand, to take the industry with which I am most directly and normally concerned, meat packing, well, here again the concentration is greater in Canada than it is in the United States.

Now, to the extent that there is some pushing and hauling and bargaining between these two concentrated segments of the food industry in Canada, I do not know whether it is.

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I got the impression that perhaps the pressures on the chain stores from the chain stores on the packers at the present time are more severe in the States than they are here, but this may be yet a lag.

On integration, which I think is the thread of development, that needs to be very closely evaluated. Here again it is hard to say. There are so many different kinds of farming, and so on. It is hard to make any generalization, but my impression is that perhaps integration is going further in the United States than here, although I am not too sure about that. But these variations, I think, are more historically interesting than vital so far as evaluating the whole picture is concerned. There has not been, as far as I can discover, as much written on integration in the Canadian sources, in the journals and so on.

COMMISSIONER DRUMMOND: Just recently.

MR. COOPER: Although a somewhat popularized article like Dhalla's in Canadian Business pays considerable attention to it and does not make any bones about it, what its implications are.

I believe developments are closely parallel and that as far as there are any lags in time in either direction, they are not particularly significant in terms of interpretation.

THE CHAIRMAN: Mr. Cooper, may I refer you to page 10, the second full paragraph, starting with the words: "Therefore this source . . .". I read the



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words: "We are also convinced that the realities require the Commission to set forth a constructive programme which seeks to ensure a fair share for the farmer of the consumer's dollar and to maintain this share at a reasonably stable level." Do you really wish to stand behind that statement?

MR. COOPER: I think when modified by the following sentence where I say that I -- I don't know, when you come to it, that that is anything very different or new.

THE CHAIRMAN: But you are saying here you will stand behind it, that the Commission should recommend so as to seek a fair share of the consumer's dollar for the farmer and to maintain the share at a reasonably stable level.

MR. COOPER: Well, I mean -- yes. This was certainly my intention when I wrote that sentence. Perhaps I was under some misapprehension as to the Commission's authority, but I assumed that because you were investigating the price spread problem, rightly or wrongly I assumed this logically seems to come or realistically flows -- such a thing flows from that.

THE CHAIRMAN: That is not the point. This is the point: Do you really believe that the establishment of some share of the consumer's dollar and the maintenance of that share to the farmer has any reasonable basis as a public policy? You do believe that, do you?

MR. COOPER: Do you mean a constant share?



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THE CHAIRMAN: That is what it says, is it not?

MR. COOPER: Yes. I believe -- I think in that sense that was not quite what I had in mind. I mean the words "fair" and "stable" are not the same. I would say "fair".

THE CHAIRMAN: Thank you. We are very grateful to you, as I said before. We appreciate the amount of work and thought that has gone into this very fine presentation. We appreciate it very much.

We will adjourn for five minutes.

MR. COOPER: It has been a pleasure.

---Short recess.



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Submission of
CANADIAN ASSOCIATION OF CONSUMERS

Appearances:

Miss Isabel Atkinson	President
Miss Helen James	
Mrs. R. Warren James	

THE CHAIRMAN: The next brief is on behalf of the Canadian Association of Consumers: Miss Atkinson, Miss James and Mrs. James. Who is going to read the brief?

MISS ATKINSON: I am going to read the brief, Mr. Chairman.

The Canadian Association of Consumers presents this brief on behalf of the women consumers of Canada. This Association was organized in 1947 by national women's organizations in response to the widespread demand by Canadian women for a consumer organization which would continue the educational and information services of the Consumer Branch of the Wartime Prices and Trade Board, and, in addition, provide an organization through which the voice of the consumer could be heard. At present CAC has 16,300 individual members and approximately 10,000 group members, chiefly in rural areas. In addition, 16 national organizations participate in the work of CAC, at national, provincial and local levels.



CAC estimates that this membership and participation represents about two million Canadian consumers.

Although membership in the Canadian Association of Consumers is at present restricted to women, this does not mean that our Association considers intelligent consumption to be an exclusively feminine prerogative! Consumer studies, however, indicate that women of the home exert a great deal of influence in the purchasing of most consumer products, and that in the field of food, with which this Commission is concerned, their influence is outstandingly important.

The Canadian Association of Consumers recognizes that consumers also occupy the roles of primary producers, wage earners, businessmen and others, and hence often have conflicting approaches to the same problem. However, our emphasis must be on the interests of our members as consumers, and our approach to the question of price spreads, as to other questions, must be to inquire whether the consumer is getting the maximum return in goods and services for his or her dollar expenditure.

The Terms of Reference instructing this Commission to inquire into the extent and causes of the spread between the prices received by producers of food products and the prices paid by consumers might be interpreted as instructions to examine the cost of processing and distributing food. We wish, however, to point out that the price paid by consumers for many foods in retail outlets does not include all costs for food which the consumer is presently bearing; certain



costs are borne by consumers indirectly in the form of taxes. We will return to this point later in this brief.

In a country as large as Canada one of the most important factors affecting the spread between the price received by the producer and the price paid by the consumer is the cost of transporting goods from the producer to the processor and to the consumer. We understand that, since the problem of freight rates is already the concern of a government board, this Commission does not intend to carry its investigation into this field. We, therefore, do not intend to discuss these transportation costs except for a brief reference. Transportation is a much larger factor in costs of foods in thinly populated rural areas than for people in large urban centres. In recent years, railway freight and passenger services have been curtailed, or suspended, on a good many lines, and during periods when road transport is blocked by snow or banned pending spring dry-up, the supply situation for small communities is difficult. All these factors add to transportation costs and widen the price spread. Information as to these costs would throw light on one aspect of the price spreads picture.

In the postwar years there have been significant changes both in consumer buying habits and in processing and marketing techniques, some of which have increased the price spread between producer and consumer and some of which have narrowed the spread. Among the changes which have tended to widen price



spreads, many are attributable simply to a higher standard of living.

The last twenty years have, with minor interruptions, been years of rising incomes. Although price increases during this period have also been substantial, Canadian families now enjoy financial resources which are substantially larger in real terms than prewar income, i.e., after taking into account the higher level of prices. This improvement in real incomes, along with other trends, has affected food consumption patterns significantly.

Available evidence suggests that almost as large a share of total family expenditures is allocated to food purchases now as in prewar days. This may at first seem surprising since budget theories once postulated that with rising incomes a lower proportion of the family budget was spent on essentials such as food and shelter. The Canadian experience has been that, instead of spending less on food, Canadian consumers have preferred to shift to more expensive foods. Although there appears to have been a small increase in the quantity of food consumed per capita in recent decades (about 7 per cent), the main factors in sustaining the level of expenditures on food have been changes in the kinds of food bought and changes in the degree of processing of foods for retail sale.

Canadian families are now consuming substantially less cereals, potatoes and butter than in the past. Fluid milk consumption has changed



little, but the consumption of dried milk and cheese has increased in recent years. The most pronounced expansion has occurred in the consumption of fruits, largely citrus fruits, and of oils and fats, exclusive of butter; the last named development is the result of large increases in the consumption of margarine and items such as salad dressings.

The most significant consumption changes from the point of view of Canadian agriculture have been in meat, poultry and eggs. Canadian consumers, for example, in recent years have increased their consumption of poultry by one-third in per capita terms. The consumption of eggs and red meats has also risen; higher income levels have meant a preference for beef rather than pork, lamb or mutton.

Many foods are also more highly processed than in earlier years. For instance, the availability of frozen concentrates has been one of the contributory reasons for the great increase in citrus fruit consumption. Other examples of increased food processing are sliced bread, prepared cake and pudding mixes, pre-cleaned and frozen fowl, frozen fruits and vegetables, more varied canned goods, and prepackaged meats.

It is probable that buying habits have been changed by more consumer education as well as by more consumer income. The modern stress on the importance of good nutrition and on the effect of diet on health has made consumers more conscious of the qualities which should be present in the foods they consume.



As a result, consumers have come to expect better grading and marketing of commodities -- for example, less spoilage in fruits and vegetables, certain standards in egg grading, more packaging, and less bulk sales of food.

A steady movement to urban areas and a decline in the farm population has meant that the production of food for home use is of decreasing importance in overall food consumption. Farm families now rely more on purchases to supplement their own production than was true in prewar days. Higher farm incomes and ownership of automobiles make it possible for rural families to be less dependent upon their own sources of supply.

Urban population growth and the phenomenal increase in automobile ownership in the last decade have been accompanied by the rise of the shopping centre with its supermarket equipped to sell a wider range of commodities in quantity. The automobile has meant that families can drive to these centres to buy groceries rather than having to shop at the local grocery store which usually does not offer as wide a variety of goods. Another factor affecting shopping habits and the types of food purchased is the wider ownership of home freezers and of refrigerators with freezing compartments. Facilities for storing frozen food in the home are largely a postwar development. In 1951 less than one-half of Canadian households had mechanical refrigeration facilities, while by 1957 the ratio was approximately 80 per cent of a larger number



of households, more than one-half million new homes having come into existence in the period.

It is expected that trends of recent years will become more pronounced in the future. As more of the labour force moves into highly industrialized industries where less manual work is performed, the switch from high calorie foods such as potatoes to high protein foods such as meats will continue. Cereal and potato consumption will probably continue to decline, while consumption of meat, eggs and poultry will expand further.

If real incomes continue moving upward, consumers will continue to want even more processing of food at the retail level. An important factor here is the trend towards labour force participation by married women. At the present time approximately forty per cent of all women workers are married and this proportion is expected to increase. This will leave wives less time for domestic preparation of foods and should lead to a greater demand for foods in a highly prepared form.

I think this is just a parallel of what has happened to, say, clothing, where women no longer weave and spin and make their own clothes. It has gone into industry, and has happened with foods.

The changes in consumer demands discussed above have all increased the price spread between producer and consumer, but they are not necessarily to be deplored. Additional variety, processing and packaging have obviously been demanded by consumers and



consumers are willing to pay more money for food to get these extras. The processing and distribution costs involved can only be criticized if they are inefficient or excessive, involving unnecessarily large additional costs to consumers.

While these changes in consumer buying habits have tended to increase price spreads, the rise of the supermarket has been a powerful factor in the opposite direction, reducing some of the costs intervening between producer and consumer, but the extent of this reduction is not measurable because of the lack in adequate statistics.

Customers have responded to this efficient method of food retailing; the attractive display of foods of all kinds in large airy premises appeals to consumers, who can shop quickly and conveniently and, thanks to the family automobile, can transport purchases with ease to their homes.

The increase in retail sales through supermarkets has revolutionized food marketing in Canada in the postwar era. According to a recent report in 1955 there were 35 food chains in Canada operating 1,256 units; four of these chains, each with over 100 units controlled 703 stores and accounted for nearly 28 per cent of all Canadian retail sales of food. Many independent merchants and the wholesalers who serve them have met the challenge of this supermarket competition by the formation of voluntary chains to gain the benefit of quantity buying and to cooperate in advertising and in other ways. This



has enabled them to compete on more equal terms. In 1956 there were approximately 4,200 of these food and combination stores associated in voluntary chains and doing \$425,000,000 of business, about 25 per cent of Canada's total for that year. (Department of Justice, material collected for submission to the Restrictive Trades Practices Commission in the course of an inquiry under Section 42 of The Combines Investigation Act into certain Discriminatory Practices in the Grocery Trade, Ottawa, 1958, pages 68-71.)

The expansion of the supermarkets, however, raises certain questions which we would like to draw to the attention of this Commission.

1. To a large extent food retailing has now become "big business". Entry into this field may still be made by small retailers, who offer more personal service to their customers, but competition with supermarkets is becoming increasingly difficult for them and is making the independent grocery business less attractive to those with small amounts of capital. The establishment and organization of a supermarket necessitates large amounts of capital.

With the acceptance by consumers of this form of marketing more and more capital has been attracted to chain store retailing. At the present time, there seem to be strong indications that, in some areas, the increase in the number of supermarkets has been too rapid and too great, with a resulting excess of capacity in this type of retailing outlet. If investors in these supermarkets fail to secure an adequate return



on their capital investment, is there a danger here of possible amalgamation which might lead to monopolistic control of food retailing?

2. We feel, too, that there is a further possible danger of vertical integration as opposed to horizontal integration. In many instances the large chains go directly to producers for supply, eliminating wholesale services, and there might come to be instances where chains would control the production of some foods. There are indications that supermarkets have entered the processing field as well, and that they influence if they do not control processors through shelf-space rent policy and quantity and discriminatory discounts. It is our hope that the Commission will consider the possible danger to consumers' interests if a few chains of supermarkets become able to control food marketing from production through processing and distribution.

3. With the expansion of supermarkets it may be said that we have moved into the "Packaging Era". The greater emphasis by consumers in recent years on sanitation in food handling has led to a much greater use of packages for food but the spread of self-service food retailing has made the role of the package one of great importance to the retailer as well. With fewer direct sales by clerks, the retailer (and the processor) must rely, to a larger extent, on the eye appeal of the product. This has led to a marked expansion in the packaging industry. Much that this industry has done has been to the advantage of the consumer and has been a factor in increasing the



standard of living, but we must question whether too much emphasis is not being put by processors and retailers on the importance of the package.

We feel strongly that in many instances the cost of packaging is too high. There are too many fancy packages, too many shapes, and too many sizes of packages. Many packages and containers cannot be used in any way after they are emptied of their original contents. In many cases the increase in the cost due to the package is unjustifiable. Many of these packages add nothing to the value of the product, and most of them are consigned to the garbage bin as soon as they are taken home. We feel that more information on the costs and the effects of this industry should be available to consumers.

We would urge the Commission to investigate the cost of packaging, which we feel may to a large extent offset economies in distribution effected by self-service in supermarkets, and at the same time provide the consumer with no proportionate return. As expressed to us, the feelings of consumers about this are very, very strong, and are repeated over and over again.

(Footnote: In this connection we would like to draw to the attention of the Commission an article entitled, "It's All in How you Wrap It", by Robert Bendiner, published in The Reporter, April 17th, 1958. This article points out the cost of packaging to the consumer in the United States and we feel that developments in Canada are closely following those in



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that country.)

(Footnote to previous page: This is an area in which the collection and development of further statistics would be very helpful.)



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We would also call the attention of the Commission to the increase in responsibility imposed on the inspectorate service of the Food and Drug Directorate, which has the duty to inspect all packaging plants for cleanliness and sanitation, and to make the tests to ensure bacteria count in frozen and other packaged foods is kept within safe limits. There are now more than 10,000 processing and packaging plants in Canada, with five hundred or more plants with a drug or medical output. We request the Commission to consider whether the increase in inspectorate and other staff has kept pace with this growth.

The banning of resale price maintenance has been instrumental in reducing price spreads between producers and consumers. In view of the increasing agitation to have this practice reinstated, we should like to re-submit the brief presented in November 1951 at the time that resale price maintenance was previously considered by the Government, and to reiterate our objections to this practice.

In the earlier discussion of some of the factors increasing the price spread in food, mention was made of the demand by consumers, as a result of consumer education, for better grading and labelling. With the growth of supermarkets, the personal contact which formerly existed between retailer and consumer and assisted the consumer in selecting her food products has virtually disappeared. As a re-



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sult the consumer has become almost wholly dependent upon printed information concerning the grade, size, weight, directions for use and other relevant facts about the food products she buys -- the information that enables her to use her food dollar to best advantage. She wants this information to be reliable and adequate at point of sale.

In the brief previously before you, I noticed Mr. Cooper in presenting his brief mentioned the custom of changing weights from one pound to 14-1/2 ounces in connection with tobacco, and then retaining the same price for the consumer. Some of our members have suggested that happens in the food field and they object very strongly to the practice of having fragmentary amounts rather than full weights on the food products which still bear the weight of the cost. It tends to confuse the consumer in any efforts she makes to compare values, and she tends to believe it is done with the express purpose of confusing her. She may be quite wrong about that, but that is the opinion she develops.

Meat is a very important item in the family food budget, yet beef is the only meat sold to the consumer by grade. When beef is federally or provincially inspected, it is well done. However, with the exception of British Columbia, the grading of beef shipped within the province is not compulsory at the provincial level although a considerable quantity of local beef is sold in every province. In some provinces, the greater part of beef sold



is local beef and ungraded. Even when beef is graded and stamped, individual cuts do not usually bear a stamp and are not labelled to indicate grade. When beef is cut to order by a butcher in a retail store, the quarter or side may bear the packer's grade but the practice of cutting meat to order has gradually given place to pre-cut and pre-packaged meat. As a protection to the consumer, the extension and implementation of meat grading regulations at the provincial level would be a great step forward.

It is difficult for people to know what they are getting.

The grading of fresh fruits and vegetables sold in the province in which they are grown is subject to provincial grading laws. All provinces do not require grading of all fruits and vegetables although most fruits and vegetables are subject to grading when shipped outside the province. Under provincial laws, however, grading is usually done in wholesale lots and does not reach the consumer level. Foods graded at the wholesale level but not at the consumer level include: cheese, domestic fruits in less than wholesale lots; oranges, grapefruit and lemons graded as to size; vegetables except potatoes, and occasionally onions and turnips. Vegetables and fruits although bought by the retailer according to grade are usually sold in bulk to the consumer without reference to grade.

With the trend to buying in smaller units,



the consumer purchasing fruits and vegetables in quantities of less than a basket or other standard wholesale container generally has no means of knowing what grade she is buying. This applies to peaches, pears, plums, tomatoes, etcetera. Wholesalers' and producers' prices are set by grade. It would seem reasonable to expect that if those who are experts in their field require grading laws to identify the grade of produce they are buying, the plight of the consumer, who is not an expert and whose purchases cover such a wide variety of foods, is of some consequence.

Almost all domestic fruits and vegetables when processed are inspected and graded according to federal laws. The grade, along with weight of contents, is printed on the label of the container.. Imported fruits and vegetables must also be graded and labelled when canned. Since consumers are buying more processed, ready-prepared and convenience foods, and all indications are that this trend is growing, better labelling and buying information is required. Too often, informative labelling of packaged foods is in small print and difficult to locate.

The purpose of the extension of grading laws would be to identify food products by grade but not to exclude lower grades from the market. The excellent nutritional value of lower grade foods is recognized. Such food is an economy and could be expected to sell for a lower price.



Consumers who wish to take advantage of the savings made by lower quality foods at lower prices should not be deprived of the opportunity to do so.

Grade B and C eggs, for example, are a good purchase for certain purposes yet they do not appear to be sold in most retail stores. Grading should aim at identification, not at exclusion, of second quality goods.

The consumer would be willing to pay a higher price for higher grades of food and for justifiable expenses incurred in providing additional grading. Where quality is concerned, major source of consumer dissatisfaction originates in the fact that too often she has no way of knowing whether she is paying first quality prices for second quality food.

The use of different terminology in grading different foods is confusing to the consumer. For example:

<u>Food Commodity</u>	<u>Highest Quality</u>
Eggs	Grade A
Beef	Choice or Red Brand
Canned Fruits & Vegetables	Fancy
Fresh Peaches, Plums, Cherries	Canada Select
Pears - in boxes	Canada Extra Fancy
Pears - in baskets	Canada No. 1
Apples	Canada Extra Fancy
Butter	Canada First Grade



If the consumer is to exercise discrimination in buying, she requires some means of identifying quality. The establishment of a uniform system of grading appears to be essential and desirable.

The consumer today, faced with making her selections from hundreds of food items, needs factual information to buy wisely. In view of the foregoing, it is evident that the present extent of grading and labelling of food products is inadequate and that more grading and labelling is not only desirable but essential to protect the consumer's interests. The deficiency, whether caused by lack of facilities, trained personnel, or for other reasons, leaves the consumer in a vulnerable position. The extension of grading and labelling laws and the establishment of a uniform system of grading to be fully effective would involve a programme of consumer education to ensure that the consumer would understand how to "buy by grade" and get her money's worth.

Brief mention has already been made of the fact that the real cost of food to the consumer includes not only the return to the primary producer and the shares taken by various groups in the merchandising chain. The consumer is also a taxpayer and as such is called upon to pay for services designed to contribute to a stable primary production. They include research in field crops, animal husbandry, dairy and poultry production,



horticulture, fisheries; for producer education through extension and other services; and for subsidies to aid in marketing. Something like \$80,000,000 is spent annually by the Federal Government (with additional annual spending by provincial governments of \$70,000,000) on those services to agriculture and some \$25,000,000 on fisheries. These figures were for 1955 or 1956, and they are probably higher at the present day.

Most of this is expended on constructive and long-term programs to improve production practices or for assistance in times of drought or flood. The consumer as taxpayer accepts the burden of these commitments as desirable for this important segment of our economy.

Of course they would like to have some of the benefits follow through to the consumer.

The implementation of price supports, however, may have undesirable results. There are, of course, circumstances which may justify the adoption of price supports to protect producers against unforeseen surpluses and catastrophically lower prices for a limited period. For example, a large local or world crop of a particular commodity, which is unlikely to be repeated, might force prices low enough in one year to bankrupt a significant number of producers. In turn, this might lead to shortages and unduly high prices the next year, as well as serious social disruption among the farmers. This kind of situation would justify the



the adoption of price supports as a form of insurance.

Current price support policy in Canada, in contrast, has a tendency to guarantee income levels in each supported segment of agriculture. Since the inducement to producers to adjust enterprises or scale of operations to the workings of a free market is diminished, the result is likely to be rigidity, over-production and the accumulation of surpluses in the hands of the governments.

C.A.C. recognizes the need for a sound farm policy in Canada to ensure a stable income to the producer. However, we agree with the statement of Mrs. Hugh Summers, Past President of Federated Women's Institutes of Canada (in a report to C.A.C. on agriculture at our annual meeting, in October, 1958), that "Although several countries use the price support formula for their agricultural products, many people believe that there should be a more satisfactory solution of the problem of (depressed) farm prices."

Her report calls attention to the new Agricultural Prices Stabilization Act of March, 1958, under which floor prices for nine key agricultural products are guaranteed at not less than 80 per cent of a ten-year moving average. The commodities are cattle, sheep, hogs, butter, cheese, eggs, and wheat, oats and barley except in Wheat Board areas. The prices of wool, sugar beets, and



soya beans are to be supported, too, by "deficiency payments", and a floor price for peaches was recently established.

Some of these prices have been established much above the 80 per cent level.

Perhaps the most dramatic example of the irrationality of the new price-support formula is the increase in the support price for eggs. For Grade A large eggs at Montreal this has been increased from 39 cents to 44 cents a dozen. In the summer of 1957, with the support price at 39 cents per dozen, there were large surpluses of eggs which went into cold storage and were later sold at some loss to the government treasury. Even the previous level of support was clearly an incentive price to large, efficient producers, and at 44 cents per dozen the expansion in the industry will certainly be prodigious as will the resultant surpluses. Consumers will not only pay more for eggs than they would if the support price were more realistic, but they will in addition be paying, as taxpayers, for storing the surplus eggs, and in all likelihood subsidizing their final sale at considerably less than the support price. The problem of disposing of the present large dried skim milk surplus is proving very difficult.

I understand price reports show a large sale of surplus cheese to the United Kingdom at 5 cents above the price to the government was very recently negotiated much to the annoyance of New



Zealand agriculture.

The Agricultural Stabilization Act provides that there shall be an advisory committee of nine members who are representatives of producers. C.A.A. believes that there should be some Consumer representation on an advisory committee which deals with subjects of so much concern to consumers, as well as producers, as the products to receive price support, the level of support they should receive and the period for which the support should be in effect.

Another feature of a price support programme which raises food costs to the consumer is the almost automatic banning of cheaper foreign imports in order to protect the domestic market. The prohibition on the import of New Zealand butter is a case in point.



In any discussion of the effect of government policy on food costs to the consumer, mention should be made of the recent revision in the way imports are valued for duty purposes. Instead of using a fair market value, or selling price in the foreign market, as a basis for valuation for duty, imports may now be valued on the basis of cost of production plus a fair profit. It is now probable that valuations for duty will be higher since the cost-profit figures used may not be those of the most efficient producers. The higher duty which will follow the higher valuations will immediately increase the spread between producer and consumer prices.

The Canadian Association of Consumers considers that some investigation of the operation of Marketing Boards by the Commission would throw light on components of price spreads. These boards are of two types, government boards such as the Milk Boards, with administrative members appointed by provincial governments, and producer marketing boards, organized by producers with board members chosen from and elected by producers, operating under the authority provided by Government Marketing Acts which have been passed in each of the provinces and supplemented by a Federal Marketing Act.

For many years now the sale of milk to consumers has been subject to the control of Provincial Milk Board (in most provinces) with



members appointed by the government, and power to regulate producers' and distributors' share in the consumer price, which is in most cases also controlled by the Board. Because milk is one of the most important foods, and is considered an essential food for young and old; consumers all across Canada have shown a lively interest in the operation of these Boards. They have been represented at Milk Board hearings, which have been held in most provinces when an increase in the consumer price of milk was being considered. They have urgently requested that consumers should be represented on Milk Boards, but with limited success. They feel that this is essential because they find that consumer opinion about and requests for economies in milk distribution such as the "store differential" in price which enables consumers to buy milk for less in stores if they are willing to carry it home; the use of two-and three-quart containers, which also makes a price reduction possible, and other services they have requested, and persistently resisted by some of the Milk Boards, in spite of long-continued requests for them.

Consumers have questioned the basis for pricing milk. We are aware that there is a very wide difference in the cost of production between that of the marginal producer and that of the efficient dairyman. We note from the report of the Gordon Commission on Canada's Economic



Prospects, agricultural section, that although average milk production per dairy cow in Canada is much below that in other countries, there has been substantial improvement in recent years, which it is expected will continue. Since 1939 the average yield per dairy cow per annum has increased from just over 4,000 pounds in 1935-1939 to 5,216 pounds in 1955, an increase of 29 per cent. We also note that in this same Gordon Report, the Ontario section, cows entered in the Dairy Herd Improvement Association showed an increase in average annual production from 7,954 pounds in 1951 to 8,616 in 1954. We mention these figures because it indicates that the potential increase in milk production per cow is likely to keep milk supplies at a level which will provide for our growing population for some time to come, as it has done in the post-war years.

We would like to urge that the increase in productivity per dairy cow, plus the increase in productivity of pasture per acre, plus the reduction in labour units required for a given number of dairy cows, are factors which should be considered by Milk Boards in setting the price of milk. We have noted that the use of "pricing formulae" has already taken the place of Milk Board hearings in some provinces as a method of weighing the factors in setting milk prices, depriving the public - the consumer - of information about milk pricing. We understand that the prices



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of the things the producer has to pay for provide the main factors in the formulae now being used, but we doubt that the increase in productivity has been given due weight.

We think it essential for the public interest that there should be provision for consumer representation on provincial milk boards which are government bodies in the provincial governments. This is not merely to satisfy the consumer, but to ensure that consumers know the producer side of this question. Producer Marketing Boards are not government boards, but they are established under the authority of legislation and must have the approval of the Government Marketing Board which of course, do not market, but judge on the Market Board procedures in their province.

In accordance with the principle adopted some years ago by C.A.C., that consumers should be represented in some way on government boards which deal with consumer supplies or consumer prices, we have expressed the opinion, and repeat it here, that consumers should be represented on the government marketing boards. This principle, we are pleased to say, has been recognized by the Government Marketing Board of the province of Quebec, which has appointed consumer representatives on its advisory committee.

During the depression primary producers suffered acutely. Plans for making co-operative marketing more comprehensive as one means of helping



themselves out of their difficulties led to the policy of producer boards for marketing, with authority to organize marketing procedures and control marketing and prices, consumer prices as well as producer prices. Consumers have not opposed these boards to any extent, although there was no provision to ensure that consumers should share in the decisions about consumer prices, or about the administration, of these marketing boards. There has been considerable opposition from producers. As recently as May of 1958, egg producers in Saskatchewan organized the Egg Producers Free Marketing Association in order to oppose plans for a (compulsory) egg marketing board. They expressed the opinion that if the proposed board assessed the producer members fees or levies to provide for administration costs and build up a reserve, this would increase egg prices to the consumer, or reduce the producer's price. They concluded by saying that "we feel that the cost of operating this Board will far exceed any benefit the producers will receive and we therefore oppose it". To the producer who specializes, who produces on a large scale efficiently and economically, it is important that he be able to market when and where he can get the best market conditions. Free marketing in such cases might reduce handling costs and the price spread.

As consumers who realize the need for some stability in producer prices and a measure of



orderly marketing to achieve this, we do not oppose producer marketing, (producers must decide what kind of marketing they want) but we feel it should not increase the spread between producer and consumer prices, it should not be so constituted that it can exercise monopolistic powers, and the consumer should have the right to representation on government marketing boards, which have supervisory powers over producer boards.

One of the components of the price spread between producer and consumer is advertising expenditures. C.A.C. would like to be more satisfied that this share of the food dollar is well spent.

The rapid rate of growth of the advertising industry, particularly in North America, and the powerful role played by advertising in our marketing system are commonplaces. The Dominion Bureau of Statistics estimates that total expenditures on advertising in Canada, not including such promotional expenditures as samples and premiums, package design, market surveys, etcetera - approximately quadrupled in the decade between 1944 and 1954. In the same period, total Canadian personal expenditures on consumer goods and services increased only two and one-half times, with the result that the ratio of advertising expenditures to total consumer expenditures rose from 1.7 per cent in 1944 to 2-1/2 per cent in 1954. The trend in advertising agency billings



in the years since then indicates that this ratio has risen further, a development due in no small part to the remarkable spread of television, which is a very expensive advertising medium. However, one aspect of the ever-increasing share of the consumer's dollar accounted for by advertising expenditures which might be examined by the Commission is the rigidity imposed by the advertising agencies' established practice of charging a flat rate on billings, regardless of their costs; because a manufacturer increases his advertising budget, it does not necessarily follow that the expenses of the agency handling the account will increase proportionately, and yet that is the basis on which the charge is made.

The ratio of advertising expenditures to sales is higher in the food and beverage manufacturing industry than the average for total manufacturing in Canada - 1.6 per cent as compared with 1.1 per cent in 1954 (the latest year for which such a break-down is available). And the ratio is very high indeed for one of the individual food manufacturing industries covered in the D.B.S. survey - 11.8 per cent for the breakfast foods industry. This industry's high advertising ratio compares with that in two other industries which do not come within the terms of reference of this Commission but whose marketing methods are not dissimilar: 11.3 per cent in the soap industry and 15.9 per cent for toilet preparations.



Then may I add I had the privilege of sitting in when the Kellogg Company brief was presented to this Commission last week. I think that the benevolence of their evidence was really touching, but I cannot say that they proved that their practice of aiming advertising at children and seducing the innocent, as someone called it, is one which consumers ever could or should approve.

I felt some regret that more information was not extracted as to the ratio or proportion of sales dollar which was appropriated on their advertising budget, but I noted that they claimed they assisted the parents by helping to persuade the child to consume cereal that he would not have otherwise consumed.

The parent will probably tell you that they were a nuisance because when she wanted the child to eat porridge, he was induced to ask for Shredded Wheat or something of that kind, corn flakes.

As I say, the benevolence of their efforts sounds very good, but I doubt if it has a basis which seemed to be indicated.

A great many consumers have indicated to us in their representations that this is an unpleasant and unsatisfactory practice, and when they knew the costs they were even more perturbed about it.

As pointed out earlier, these ratios do not include expenditures on sales promotion; if



they were included, the figures would, of course, be higher and it is likely that the gap between the ratio for total manufacturing and that for the food industry would be wider. Largely because of the growth of the supermarket in recent years, promotional activity in the food industry has intensified. As the report on "Discriminatory Pricing Practices in the Grocery Trade", to which we have already referred, puts it, "the increasing size of supermarkets -- has placed emphasis on the use of more and more powerful attractions to pull traffic past the lengthening row of shelves. Promotional devices of great variety have been used; indeed some observers have referred to this development as 'gimmick selling'. The large volume of sales moving through supermarkets has naturally given rise among manufacturers to strenuous competition for preferred selling positions in such outlets - often called 'the battle for shelf space'. Advertising and other promotional allowances are apparently playing an important role in this 'battle', as are more colourful packaging and other methods of catching the shopper's attention. To consumers, this emphasis on strategic display positions and the like suggest that price competition, long the hallmark of grocery distribution, is being displaced by cost-increasing promotional expenditures ranging from trading stamps, through retailer sales contests, premiums in packages, payment for shelf space and the whole gamut of advertising devices."



(Department of Justice, Ottawa, 1958,
op. cit., pp. 53-54.)

It would seem that promotional activities in the marketing of food would be a worthwhile subject of detailed study by the Commission. In particular, information is needed on the cost of such promotional practices as putting children's toys in breakfast food boxes, handling so-called self-liquidating premiums, giving away free samples, etcetera, and the concomitant advertising expenditures. It is our impression that, if the cost were known, the consuming public might offer much more resistance to such activities and would press instead for competition on the basis of price.

Another possible area of investigation, also referred to in the above quotation, is the practice of granting advertising allowances and discounts by manufacturers to distributors. These are simply kickbacks which to the extent that they are not matched by advertising or promotional value received are substitutes for price reductions.

Finally, the Commission might wish to consider whether the consumer needs further protection from fraud or misrepresentation in advertising in addition to that now afforded under the Food and Drugs Act. The Act prohibits the labelling, packaging and advertising of a food in a manner that is false or deceptive or that is likely to create an erroneous impression regarding its



character, value, quantity, composition, merit, or safety. The Commission might wish to enquire as to whether the aims of the Act are realized in practice and also whether additional positive requirements might be incorporated: e.g. should the protein content and the vitamin A content of breakfast food and fruit juice, respectively be made known to the consumer?

Again how far are we from effective enforcement of the regulations that we have?

The Canadian Association of Consumers acknowledges the contribution of advertising to the broadening of the market for mass-produced processed foods in particular, and hence to the lowering of production and distribution costs in the food industry, but wishes to emphasize that the fundamental basis of good advertising is the dissemination of accurate and helpful information about the product concerned. Advertising that is specious or, at the worst, fraudulent is harmful to an extent that is impossible to measure in dollars and cents, because it does mislead and it destroys the confidence of the consumer.



The members of the Commission will note that our brief has dealt with the changing aspects of consumer demand and consumer supplies; with the transformation in methods of distribution which has taken place and continues; with changes in marketing methods; with the need for more adequate grading and inspection of foods; and with the wastefulness of some costly types of advertising and sales promotion. The brief has not presented commodity studies with statistics to demonstrate what makes retail food prices higher or the spread wider. Increases in the cost of living have made homemakers fearful of inflation, but we don't have the information to enable us to pinpoint the trouble spots.

Over and over again in the work we have done, and in that done by our provincial branches, we have been hampered by this lack of detailed and reliable information about the cost from year to year of production, of processing at various stages, and of distribution. The cost of living index, published month by month, only gives us the end results, not the hows and whys of continually increasing prices. This is like diagnosing a disease without indicating what can be done about it. Speaking in terms of economics, we are living at the dawn of a strange, new and exciting era, when scientific and technological discoveries are making possible an increase in productivity, in primary products as well as manufacturing, which



should usher in an age of abundance, and put an end to the shadow of famine and starvation. Instead of being able to rejoice in this abundance we are worrying about gluts and surpluses and over-production; instead of such plenty making the cost of living lower, it remains high and continues to climb. It does not seem likely that these new economic problems can be solved by using old economic patterns. Much more consideration will have to be given to "Consumer Economics" before satisfactory economic patterns and policies emerge and the Canadian Association of Consumers is hopeful that the work of this Commission will lead to constructive efforts for sound production, marketing and distribution methods, helpful to producer and consumer alike.

Respectfully submitted on behalf of the
Canadian Association of Consumers.

Addenda: There are some examples of commodity prices and conditions which have been referred to so often by our members that we recapitulate their comments or questions.

Next to milk, already mentioned in the body of the brief, the item most frequently referred to is meat. Consumers are disturbed about its quality, even its wholesomeness when it has not been inspected, as well as its price. For the protection of consumers it has been suggested that meat which has not been inspected should be so marked at point of retail sale.



The next product in point of frequency mentioned was the apple. According to figures quoted in provincial C.A.C. briefs there is a very wide spread between producer and consumer prices in the Maritimes and Ontario as well as in British Columbia and this prevails whether the apples are Producer Board Marketed or marketed in other ways. The British Columbia price is typical. The producer got \$1.12 per 40-pound box. The consumer paid \$4.35 to \$4.75 for it whether it had been shipped fifty or a thousand miles. Per pound prices ranged from 10 cents to 15 cents, were even higher late in the season, due to storage costs, presumably. In British Columbia's Okanagan Valley in the summer of 1958 the National President of C.A.C. was asked why orchardists were not allowed to sell -- and Okanagan consumers to buy - a local pack, less costly than export apples required, at a lower price made possible by the cheaper pack and by the elimination of freight charges. Only the Marketing Board could answer that question, which was echoed later in a report from Nova Scotia about apple prices there. Prairie dwellers, unable to grow their own fruit, have to depend on imported supplies. A C.A.C. group of young mothers with growing families said they could use twice as many apples for their children, but the price was too high. Yet they knew there had been an abundant crop and apples were reported to be unpicked on the trees or rotting on the ground in British Columbia for lack of demand.



Dr. Pett, Nutrition Division, Department of National Health and Welfare, is quoted as saying that Canadians should consume an annual average per capita of fresh fruits and vegetables of 537 pounds, which is 43 per cent more than the 376-pound average consumption reported. This indicates a big gap between current demand and potential demand.

Vigorous and aggressive sales policies, supplemented by processing of high quality juices and other canned fruit products, by the British Columbia Tree Fruit Marketing Board have built up large "export" markets for British Columbia fruits in the prairie provinces and elsewhere. However, since that marketing board was first established the population of British Columbia has almost doubled, it is more prosperous than in the thirties, so that it offers a "domestic" market worth cultivating, almost equal to the "export" market of Manitoba and Saskatchewan combined. Yet, the selling system of the British Columbia Board is geared to the export market, grading and packs are designed to serve it well, and British Columbia consumers feel that it is given priority, while the fruit they get, which should be more "tree ripened" and should be up to standard is often ungraded, unripe, and yet sold for grade 1 prices, no less than those which require a long freight haul.

Of producer marketing boards in general there are repeated questions as to the cost of maintaining





them; the effect of their rulings on the quantity, quality and price of the products they market; whether by means of their powers of control they tend to protect the less efficient producer or processor; and finally the conviction that, with such extensive and arbitrary powers as the Marketing Board Acts confer, there should be some built-in responsibility to the consumer.

The high price of salmon, especially of canned sockeye salmon, is the subject of many more consumer questions, and much concern. The thrilling story of the restoration of the Adams River Sockeye run, at high cost to the people of Canada, is widely known. The cycle of production, with moderate runs some years and big runs in other years, culminating in the record catch of 1958, has not so far resulted in better prices to consumers. In years when the run is small, prices rise, but they do not go down when there is a big run. Why? This year the catch was not big, it was enormous. There are press reports of fortunes made by boat crews in the short season, and of huge earnings in a single week of fishing, and of capacity packs at the processing plants. Why is there not some reasonable relationship between the cost of production (fishing in this case) and of processing, and the price to the consumer. Has the consumer who, as taxpayer, paid the costs of research and construction which restored the sockeye run, no right to share in the benefit of such an



abundant supply as we have in 1958? Why should the fishermen and packers reap the full reward of this national achievement? (The Canadian Grocer in a recent issue stated "four or five years ago most national brands of sockeye salmon were sold around 35 cents per 8-ounce can at the consumer level. Today, regular prices are up to 49 cents to 52 cents in Winnipeg - in many retail outlets.

Sugar is another commodity the price structure of which should be examined. Manitoba C.A.C. asks why beet sugar produced in that province costs them as much as imported sugar which is subject to freight charges? The price has been "equalized" so that consumers get no benefit from local production. Who controls these prices so that the pattern is the same all across the country? Why did the price of sugar stocks on hand, as well as later imports, go up when there was a rising world price in 1957 and then fail to go down proportionately when the world market prices dropped? Is the Canadian sugar industry protected by unofficial (or gentlemen's) agreements to shut out refined cane sugar? If so, is it done to help the sugar beet grower, or to help the cane sugar industry, which is well established, if not a near monopoly even now?

Among other special suggestions received from several sources is one that an increasing proportion of canned fruit and vegetables should be put up in the 20-ounce pack, with some in the



old 28-ounce container. During the war the 15-ounce pack was adopted as a means of avoiding waste, in the many families too small to use the 20-ounce can to advantage. Today there is an increase in the size of families and the larger pack could be an economy.

THE CHAIRMAN: We have heard interesting briefs from most of the provincial groups across Canada, and we are very grateful for this national presentation. You expressed regret that in the discussion in the representations made by some of the breakfast food manufacturers that we had not elicited information from them about the advertising costs. May I say we have sent out questionnaires to a large number of food processors and distributors, including the breakfast food manufacturers, and we have already received returns from all the major breakfast food processors, and the returns include the information on their advertising costs.

MISS ATKINSON: I should have made it clear that what I meant was that you did not elicit it while I was here. I felt sure you would be following that through, and we are glad to know that you are.

COMMISSIONER WALTON: Miss Atkinson, there are one or two questions that I would like to ask, and if you could amplify some statements that you made, as they are rather different from some that we have heard from other groups. On page 4, down at the bottom of the page, your reference to supermarkets,



you have expressed an opinion, and there seems to be strong indication in some areas that the increase in the number of supermarkets has been too rapid and too great with the result of an excess capacity in this type of retailing outlet. Then you go on to say that if they fail to bring in a return, it would not be very good. Have you had some of your groups, or evidence presented to you, that this is a factor?

MISS ATKINSON: I think it is only an emerging situation, myself. I wasn't the source of that information, but I believe it grew out of reports of recent developments, one instance of which was in Winnipeg where there were three or four big new shopping centres being built before the communities around them had been built up to a size where it seemed likely they would really be needed to serve those communities. We have had several comments from consumers in various places. One was made to me in connection with a large market -- one of these large supermarkets -- in Toronto to the effect that a large part of every day there were very few people in the market, and that up to the present, at least, it didn't seem likely they would be doing such a volume of business that would be needed to be profitable. We have received comments to that effect a number of times, but we have not got any evidence of a really factual nature to support that. My own opinion is that these things have to be planned; these developments, perhaps,



are initiated before the need for them is fully realized with the expectation that communities are growing.

COMMISSIONER WALTON: In other words, the source was really that the supermarket seemed to be in before there was a sufficient consumer buying public around?

MISS ATKINSON: That is a comment that has been made by consumers, and we have no foundation for it. Actually, I think one of the greatest troubles in connection with this work is that there are so many things for which we have no recorded statistics. No surveys or studies have been made to give us accurate and reliable information from the consumer point of view. Sometimes our opinions may be very strong; they may be wrong, because we are not properly informed, and one of the things that has impressed me in preparing this material and presenting it is the tremendous need for more information about consumer goods; not just in the grocery field. However, the figures -- I think that last year's expenditures from food for Canada, in 1957, totalled \$4,000,810,000; almost \$3 billion of that is spent in food, and what they call combination stores. It is a tremendous volume of purchases. The consumer is the purchasing agent for the family, and she is not dealing in large volumes such as in the industrial fields, and she has no continuing source of specialized and expert information as to what she should do.



It is not only serious for the consumer; I think it is serious for the country's economy, when we have so little information, so few studies, and such a limited amount of research done on the processing of consumer goods and the costs of distribution.

COMMISSIONER WALTON: You have expressed what a great many other groups have said on this lack of consumer education. One or two of the briefs presented to us have made suggestions that it should be a government responsibility. This morning another brief suggested it should be a composite group on a voluntary basis, with government support. Yesterday there was another group that seemed to go a little further in asking for consumer representation and that they should be on all marketing and processing boards and associations. They felt that government boards such as producer, marketing boards and agricultural stabilization and milk boards should have consumer representation. Have you felt --

MISS ATKINSON: That is only one aspect.

COMMISSIONER WALTON: Yes, I appreciate that.

MISS ATKINSON: Total consumer purchases last year were something over \$19 million. One or two millions does not make much difference when you get up into that level. Working in preparation for this Commission, it has become apparent to me how much more information we need, and we need information more in non-food fields about consumer



distribution than we do in the food field.

COMMISSIONER WALTON: How do you suggest disseminating it?

MISS ATKINSON: I don't think a voluntary organization or representation on boards would do more than just touch on certain aspects of these problems. This problem is tremendous; it is going to continue to be tremendous.

COMMISSIONER WALTON: Have you any suggestions to this Commission that sound practical?

MISS ATKINSON: My own feeling has reached the point where I feel we need a Department of Consumer Affairs with a cabinet minister, but you can't do that out of nothing. It would take years to develop it, and we should begin some time soon to give it definite attention. When we want something done in regard to standards or sizes, it is done by a government committee -- the Board of Specifications, and so on. It is done when they have nothing else to do and can give a little time to consumer interests. They have other tasks which have to do with other aspects of trade and commerce, but there is no force in the government which is co-ordinating the looking after of consumer interests. Take the matter of grading and inspection: We have an inspection service in the Federal Department of Agriculture; it goes so far. We have inspection and grading in connection with dairy products, meats and fruit and vegetables and some other commodities.



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But is not organized with the intention of serving the consumer. I have with me an outline of their services and they say they are interested more at a certain level which is a level for export and distribution in that line. In addition to the services of the Federal Department of Agriculture we have the provincial Department of Agriculture and other provincial Departments; we have the Food and Drugs Inspection, which has its share of services, but they have grown up in different departments over a great number of years and there is no coordination between them, no one knows quite where one service ends and another begins. I think the time has come when instead of dealing, as they did originally, with agricultural products for export and certain other things, they are dealing with a tremendous Canadian market and a study should be made of that to see how they can be coordinated and unified, and so on.

The Department of Food and Drugs are responsible for certain sanitary conditions in retail and processing and packaging firms, and they are responsible for a great many other services. In connection with drugs they are responsible for checking for slack fill in packaging and many other things, responsible for checking imports or certain goods like dried fruits which come in. They have sixty-one inspectors for the whole country.

I know the federal Department of Agriculture has 455 meat inspectors for the whole country. Now, I do not know how much more time and trouble it takes to



inspect ten thousand or more food processing and packaging plants or five hundred drug packaging plants and see that some retail stores are sanitary, that imports that come across the boundary are clean and sanitary -- for instance, currants from Turkey and Greece and places like that -- they are inspected at the border. Now and then there are other services that fall on a department like that. I think the food processing has mushroomed in the past ten years in these frozen foods which are a new development, but has the service grown in proportion to that? A great deal of it depends on the inspection which they are able to provide.

There is a recent article which I judge is reasonably sound published in September Chatelaine, which said that after investigating -- I presume the Food and Drugs inspectors had only been able to examine some 2700 of the 10,000 food processing plants in Canada during the last year. The year for which the report was made was presumably 1956. Is once a year or once every four years -- it would take about that time to get around -- is that enough? Not very long ago we had reports of a cheese manufacturer in Ontario who was fined \$5,000 and some tons of cheese destroyed because for four or five years he had been notified that he had to clean his place up and he had failed to do so. It was partly the responsibility of the Department of Agriculture, I suppose, which issued the licence to that man, and partly the responsibility of the Food and Drugs



inspectors and eventually a charge was laid.

COMMISSIONER WALTON: Coming back to your answer, I was asking what suggestion your Association might have as to consumer education, and you mentioned that you felt it should be another department of the Ministry. How would you do it provincially?

MISS ATKINSON: It is just an opinion I have; it is so big that we have to take a new look and go at it in a different way. We would probably have to begin with a division of consumers.

COMMISSIONER WALTON: Are you aware of the setup in New York State where they have recently instituted in the last three or four years ---

MISS ATKINSON: It is only representative. They would like a setup but they have not got that far. I might say we have a great many things in Canada that they do not have in the United States. They estimate they lose anywhere from one to three billions annually because of unsatisfactory weights and measures systems. We have a very good weights and measures system here; we have far more effective drug inspection laws and enforcement, I think, than they have down there, for certain reasons. I cannot go into all the details but I am familiar with them.

COMMISSIONER WALTON: You do believe that if we had some further amplification on something for consumers, that if consumers could get available information and were better informed, it would be better for the economy?

MISS ATKINSON: Yes, it would be.



Supposing the Commission recommends that we should have surveys made on certain aspects of food processing and distribution through a department or a division of the Department of Trade and Commerce that is equipped to do that, with such a department going into it -- I think we can ask the Government for something, they are perfectly willing to give it to us, but it gets lost because there is no one to carry out the particular thing. You would really need some government setup which would look after these very big questions.

I think the producers of this country have a terrific problem ahead of them -- increases in production. I have some figures which say that in Germany between 1951 and 1957 the primary production increased by 60 per cent. For the same period in England primary production of staple products, at the request of the government, was increased by over 50 per cent -- no, they asked for an increase of 60 per cent; Germany's was 50 per cent. In Britain it was 60 per cent in five years.

Now, what are we going to do in this country with prospects of increased production here and in the growing market for them? We cannot let our producers fall behind in efficiency and they are going to have some terrific problems and continuing problems. I have a great deal of sympathy for them but I think perhaps we need a lot more information to know how to go about this, and we are going to have to look at it from the consumer's point of view as well as



the producer.

COMMISSIONER MacKICHAN: I just have one small question. At the top of page 4 you mention, speaking of the packaging consumers have obviously demanded -- I note that the manufacturers have mentioned this item. Is that your stated opinion or would you rather use the words "obviously accepted"?

MISS ATKINSON: I think "accepted" is a better term. I think they have found certain satisfaction in the better grading which is inside the package and it is more convenient, but I do not think the demand originated with the consumer.



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COMMISSIONER MacKICHAN: That is all, Mr. Chairman.

COMMISSIONER KIDD: Miss Atkinson, I gather that you felt there were some unjustified, or unjustifiably large charges at the point of the wholesalers; but supposing the functions of the wholesaler were removed, these functions will still have to be performed by someone?

MISS ATKINSON: Will you tell me, Mr. Kidd, where I said that?

COMMISSIONER KIDD: This was my impression of what you had said.

MISS ATKINSON: I did not intend -- I don't know what I have said which suggests that the wholesaler was taking an undue share of the spread.

COMMISSIONER KIDD: No, I did not say that so much as it seemed to me ---

MISS ATKINSON: You mean in connection with advertising allowances?

COMMISSIONER KIDD: No. It seemed to me that your point was that the function of the wholesaler could probably be got rid of. My point was someone would have to perform those services and did you think that they could be performed more cheaply by any other group?

MISS ATKINSON: Well, actually, I don't think that you could speak of the wholesaler in general terms that easily, that it could be eliminated. I do think that supermarkets have perhaps in some places gone directly to the manufacturer but I do think that where the wholesaler survives, and in



some cases I am afraid he has had a very hard time of it -- because he is performing an essential function.

I know something of the situation in connection with independents who have organized food groups. They have usually done it with the help or as the result of the organizing ability of a wholesaler and very often the wholesaler's costs have been very greatly reduced as a result of this cooperation and as a result of the competition from the supermarkets which has made the independent stores undertake organization at a new level and new practices.

COMMISSIONER KIDD: Getting back to the question that Mrs. Walton asked, at the bottom of page 4, regarding the possibilities of excess capacity, it seemed to me that there are two factors in it, two points to be considered. One would be the actual number of supermarkets in an area and secondly, there would be the factor of excess capacity. Now, would you say that both these factors could cause increases in costs?

MISS ATKINSON: Well, it is very difficult to say, because, as I say, any such statement that I may make cannot be supported by evidence. In the first place distribution is something like manufacturing. If there is a new product being produced, we will say something synthetic is being produced, the manufacturer may build the plant before he has developed the demand for the article he is going to produce and there may be a period before that plant is earning because it



takes some time to get the product started.

I presume that the supermarkets' plans are made somewhat ahead of time. You do not know what the movement of population will be and it does not always go according to plan. You move your supermarket unit ahead of the conditions which you expect to find to make it profitable but we are not in a position to give any factual reliable information on that.

COMMISSIONER KIDD: Well, there are some items which you mentioned which do tend to increase cost to the consumers, such as advertising and things that go to create impulse buying, about which we have heard so much.

MISS ATKINSON: Yes.

COMMISSIONER KIDD: With that in mind and keeping also the last point in mind, at the top of page 4 you say, "While these changes in consumer buying habits have tended to increase price spreads, the rise of the supermarket has been a powerful factor in the opposite direction." Can you let us have some reasons why you say that?

MISS ATKINSON: I think at the beginning of chain stores and supermarkets -- of course, that was back in the late twenties or thirties, there have been tremendous changes since then and one of the changes has been the margin of the markup of the retail grocer distribution. I have seen trade unions' statements suggesting that the markup on groceries averaged -- the markup on groceries had been reduced somewhere around 14 per cent. In some cases it may



be less and in some a bit more. Also in regard to advertising I have probably got clippings -- I haven't them here -- suggesting that the use of these various sales promotion efforts has added two or three per cent to distribution costs and has put the markup back up from around 14 per cent to 17 per cent.

Those are not figures that are substantiated by any DBS statistics. They are figures in trade journals such as The Canadian Grocer, and so on, reporting on perhaps conventions where these matters have been discussed by wholesalers and retailers.

COMMISSIONER KIDD: I had another point. This is just a general question, but on page 3 down at the second last paragraph you say: "It is expected that trends of recent years will become more pronounced in the future." One of these trends is that there is more food buying or there is more expensive food buying today?

MISS ATKINSON: Yes.

COMMISSIONER KIDD: Those two factors are present?

MISS ATKINSON: Yes.

COMMISSIONER KIDD: Do you expect then that food prices will rise if this demand keeps on increasing?

MISS ATKINSON: That depends whether the potential of increased productivity and distribution costs, producer and distribution costs, continue to rise as they have done.

COMMISSIONER KIDD: Yes. I was wondering



if you had any ideas about ways to offset that?

MISS ATKINSON: This speaks of a trend. You never can tell when a trend will change or what will change it, and a great many things may happen but it does seem that the postwar trend has been definitely fairly consistent, sometimes slower than others, but a consistent increase in the cost of living and that has affected the price in most fields.

COMMISSIONER DRUMMOND: I notice close to the bottom of page 12, Miss Atkinson, you state: "The promotional activity in the food industry has intensified" and also you state that that is directly related to the growth of the supermarkets. Speaking of trends, do you anticipate this particular trend is likely to continue? In other words, is it another way of saying as the supermarkets continue to increase in number and perhaps size that will be accompanied by a further intensification of these promotional efforts?

MISS ATKINSON: Well, the figures we have about supermarkets were not that they were intensified in number but that after rising to a maximum several years ago they had now -- the units themselves had decreased from some 1700 to 1256, perhaps, and possibly because they were larger.

I also notice a matter which I thought was of considerable interest, that the amount sold per clerk had greatly increased in recent years. That is the amount of food, the dollar value of the food in proportion to each employee was very, very much



higher. Those figures are in the report of the Restrictive Trades Practices Commission. I cannot give them to you, but I know they were very high today to what they used to be a few years ago.

Just what the effect of competition will be, I don't know. This is a big country, as the country to the south is. I would hate to see a monopoly building up in food because there is such a diversity of food and this is such a big country for people to spread over and all kinds of competition leaping gradually into this field, because whether other consumer supplies are in demand or not food is always sold. Therefore there is a very stable intention of keeping food or staying in that field.

COMMISSIONER DRUMMOND: My main reason for asking this is simply this: a very considerable part of the brief is devoted to a discussion -- I might say a denunciation -- of the so-called promotional efforts of various types in advertising in the larger sense, and you have apparently concluded the development of the supermarkets is at least a major factor, if not the major factor, responsible.

I am wondering if you feel other sections of the food industry are not at least partly responsible also for these promotional efforts.

MISS ATKINSON: I am not sure whether I could blame the adoption of promotional methods on any section of the food industry. It seems to me that in the last twenty or thirty years we have had a great many changes. One of those changes has been



the production in a region of goods for that region by regional firms of supply, and the outgrowth or the establishment of firms which apparently are national firms of advertisers. Almost every large firm of advertisers is now a national firm and it may be desirable for such firms to expand across the country but once they do they have to advertise on a different basis. Instead of doing their own advertising they go to advertising firms and then these new developments in intercommunication and enlargement of fields of production has encouraged the growth of advertising firms.

We also see premium firms; firms whose one object is to pick up premiums at reasonable cost and then sell somebody the idea that the consumer wants premiums, and they use public relations a great deal.

I have a clipping here from a man in the advertising field, which I would like to read. It was at a meeting of the Advertisers Association of the West held in Vancouver this summer -- an address by Robert E. Allen, president of Fuller and Smith and Ross, of New York. He was talking on advertising, new dimensions in advertising. He said: "Realistic advertising must concentrate on essential communication to the consumer. . . . Essential communication says what the customer thinks is important, not the manufacturer, not the president's wife, not the sales manager, not the engineering department, but the customer.

"Guesswork, personal opinion and traditions



will no longer keep a company in business! You need facts -- accurate, sensitive, clear, concise facts about your customers."

Now, we think that advertising on that basis would be a good thing. What we don't like is wasteful advertising which, in our opinion, is ineffective and costly and a burden to the consumers in the long run.

COMMISSIONER DRUMMOND: My only other question relates to the further statement on the next page, in the middle of page 13, where you make this summary sort of statement: "If the costs were known, the consumer public might offer more resistance to such activities and would press instead for competition on the basis of price."

That, to me, carries two implications: one, that in your opinion the cost of these things, if they were calculated, would be found to be extremely large, and, secondly, if you could find out the cost that it would be possible to get the consumers as a class, in the mass, to become aware and perhaps after they became aware they would become alarmed and demand something different; particularly price reduction.



MISS ATKINSON: Well, a percentage of consumers at the present time is disturbed about this, and does demand --

COMMISSIONER DRUMMOND: A percentage?

MISS ATKINSON: A percentage. I don't think a year has passed when we haven't resolutions about this subject presented to us, but the consumers as a whole, of course, are very different. At the present time they are in possession of more money than any group of consumers ever had before -- more spending power. There is a wider diversity of very attractive goods, which is appealing to them. They have not acquired any particular resistance, which time will bring, or experience which time will also bring, and therefore they are, perhaps, more vulnerable now in this stage or phase of the development of our distributing system than they will be as time goes on. There is a natural tendency to develop resistance, and I think that we already feel that in some respects. I have seen reports saying there is a great deal of consumer resistance to some practices in the United States, and I think over a period of time we will acquire more discrimination and develop more resistance to the less desirable practices.

THE CHAIRMAN: Well thank you very much, Miss Atkinson. This is the last opportunity the Canadian Association of Consumers will have to present the views of the women of Canada to us. Is there anything more you wish to add?



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MISS ATKINSON: I would like to suggest that you bear in mind, both at the provincial and national level, we are a women's voluntary organization. We do not have funds or experts or legal advisors to prepare very able briefs, and what we can do that no one else can do is bring you a consumer's opinion, whether it is a wise opinion or an unwise opinion, and I believe the consumer's opinion, misinformed or well informed, is of great value, and I hope it will help the Commission.

THE CHAIRMAN: It has been most capably expressed this afternoon.

I would like to announce that the hearings tomorrow will commence at 9.30 in the morning, and express our appreciation to Mr. Hyland, the Vice-President of British Columbia Packers for agreeing to stay over. We will receive his brief at 9.30 in the morning.

--- Whereupon the Commission adjourned at 5.30 p.m. until 9.30 a.m. Wednesday, November 19th, 1958.

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